McKinsey Global Institute

October 2013

Urban world: The shifting global business landscape

The McKinsey Global Institute

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MGI is led by McKinsey & Company directors Richard Dobbs, James Manyika, and Jonathan Woetzel. Yougang Chen, Michael Chui, Susan Lund, and Jaana Remes serve as MGI principals. Project teams are led by a group of senior fellows and include consultants from McKinsey's offices around the world. These teams draw on McKinsey's global network of partners and industry and management experts. In addition, leading economists, including Nobel laureates, act as research advisers. The partners of McKinsey & Company fund MGI's research; it is not commissioned by any business, government, or other institution. For further information about MGI and to download reports, please visit www.mckinsey.com/mgi.

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Richard Dobbs
Jaana Remes
Sven Smit
James Manyika
Jonathan Woetzel
Yaw Agyenim-Boateng

Preface

Urbanization and industrialization continue to reshape the world's economic order, creating a global consuming class that will be four billion strong by 2025. Previous *Urban world* reports by the McKinsey Global Institute (MGI) have quantified the magnitude of the changes in the global consuming class and infrastructure investment that are under way as fast-growing cities in emerging regions gain share in the global economy.

This report continues MGI's urbanization research with a focus on understanding the global landscape for large companies—and how it will be reshaped by the rise of thousands of new corporate giants based in the emerging world. Although this trend is still in its early stages, it will continue to play out on an even greater scale in the years ahead, with far-ranging implications for industry competition and economic development.

To track these changing dynamics, MGI has built a unique database of worldwide companies with $1 billion or more in annual revenue—the MGI CompanyScope. By combining this database with MGI's Cityscope database, we can draw a detailed map of the current global business world and anticipate how patterns will change by 2025. Understanding these trends will give today's business leaders insight into tomorrow's competitors and market opportunities.

This research was co-led by Jaana Remes, an MGI partner based in San Francisco; Richard Dobbs, a McKinsey & Company and MGI director who was based in Seoul and is now in London; and Sven Smit, a McKinsey director based in Amsterdam. Yaw Agyenim-Boateng, a consultant based in Lagos, led the project team, which included Lucia Fiorito, Jonathan Jenkins, and Juliane Parys. Felipe Gonzalez, Diego Groisman, and Seungyoon Lee provided excellent research assistance.

We are grateful for the advice and input of many McKinsey colleagues, including Jonathan Ablett, Yuval Atsmon, Dominic Barton, Angeles Basavilbaso, Kito de Boer, Sandy Boss, Andres Cadena, Yougang Chen, Peter Child, Wonsik Choi, Michael Chui, Frank Comes, Heinz-Peter Elstrodt, Diana Farrell, Cristina Gonzalez, Andrew Grant, Michael Halbye, Staffan Hertzell, Suzanne Heywood, Noshir Kaka, Cameron Kennedy, Tim Koller, Jürgen Laartz, Eric Labaye, Alexandra Laird, Jonathan Law, Richard Lee, Acha Leke, Nicolas Leung, Joy Long, Susan Lund, Anu Madgavkar, Vik Malhotra, Jennifer May, Giacomo Meille, Lenny Mendonca, Jan Mischke, Nicola Mohammad, Javier Nanni, Matthew North, Gordon Orr, Alejandra Restrepo, Vivian Riefberg, Matt Rogers, Manish Sharma, Seelan Singham, Stefan Spang, Dongrok Suh, Fraser Thompson, Oliver Tonby, Arend van Wamelen, Allen Webb, Wonsik Yoo, and Markus Zils.

The team benefited from the contributions of Janet Bush and Lisa Renaud, MGI senior editors; MGI's Rebeca Robboy and Gabriela Ramirez for their help on external relations; Julie Philpot, MGI's editorial production manager; and Marisa Carder, visual graphics specialist.

We wish to thank the academic advisers whose knowledge and guidance helped shape the report: Daron Acemoglu, Elizabeth and James Killian Professor of Economics at the Massachusetts Institute of Technology; Richard Cooper, Maurits C. Boas Professor of International Economics in the Department of Economics at Harvard University; and Michael Storper, professor of urban planning at the University of California, Los Angeles. We are also grateful to Pankaj Ghemawat, Anselmo Rubiralta Professor of Global Strategy at IESE Business School; Enrico Moretti, professor of economics at the University of California, Berkeley; and Nat Wei, member of the United Kingdom's House of Lords.

This report contributes to MGI's mission to help business and policy leaders understand the forces transforming the global economy, identify strategic locations, and prepare for the next wave of growth. As with all MGI research, we would like to emphasize that this work is independent and has not been commissioned or sponsored in any way by any business, government, or other institution.

Richard Dobbs
Director, McKinsey Global Institute
Seoul

James Manyika
Director, McKinsey Global Institute
San Francisco

Jonathan Woetzel
Director, McKinsey Global Institute
Shanghai

October 2013

The global business landscape in 2010 …

8,000 companies worldwide exceed our "large company" benchmark of $1 billion in annual revenue

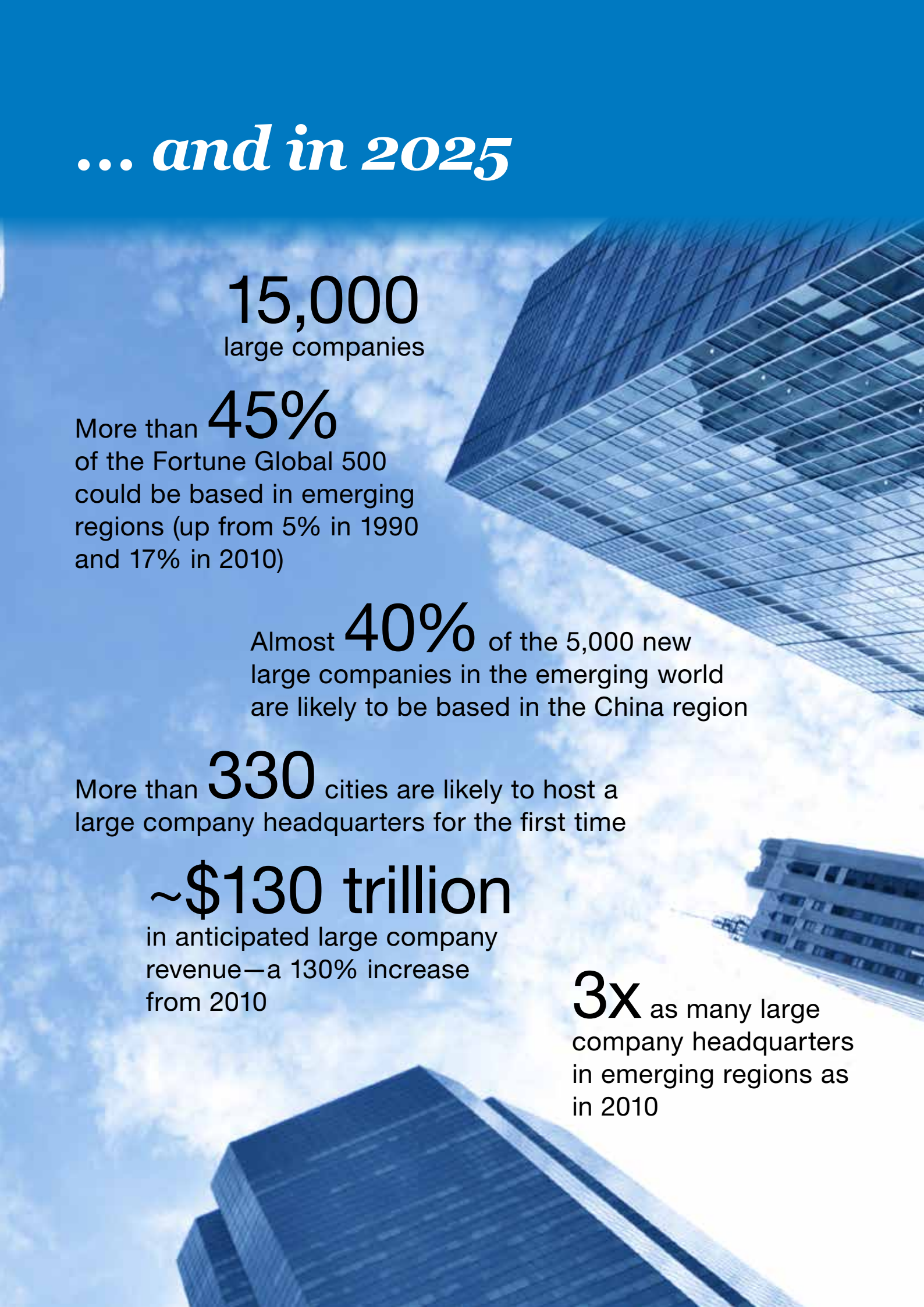
$57 trillion in consolidated revenue generated by these companies worldwide—or 90% of global GDP (not an exact like-for-like comparison)

73% of these large companies are in developed regions

800 of the world's largest companies are state-owned enterprises

20 cities are home to more than one-third of large companies

… and in 2025



15,000
large companies

More than **45%** of the Fortune Global 500 could be based in emerging regions (up from 5% in 1990 and 17% in 2010)

Almost **40%** of the 5,000 new large companies in the emerging world are likely to be based in the China region

More than **330** cities are likely to host a large company headquarters for the first time

~$130 trillion
in anticipated large company revenue—a 130% increase from 2010

3x as many large company headquarters in emerging regions as in 2010

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Executive summary

The rise of emerging economies has presented multinational corporations with unprecedented market opportunities and the ability to tap into an increasingly skilled labor force. But a related shift is just beginning to gather force, and it has the potential to redraw the world's business map and rewrite the rule book on global corporate competition.

Emerging regions are not just a collection of new consumer markets or a source of cheap—and increasingly skilled—labor. They are also giving rise to thousands of new companies that are quickly reaching significant scale, and changing competitive business dynamics around the world. Business leaders need a better understanding of the current corporate landscape and how it is evolving in order to anticipate where the global economy is headed and how to prepare for a new wave of competitors.

Large companies matter—and not only for their ability to create jobs and generate higher incomes. They are also forces for higher productivity, innovation, standard setting, and the dissemination of skills and technology. Their geographic rebalancing will have wide-ranging implications for prosperity and growth in emerging economies, and it will shift more of the world's decision making, capital, standard setting, and innovation to emerging markets. But as a group, the world's largest companies have historically been poorly studied, and most research has focused only on publicly listed firms. To drive this research forward, we developed our MGI CompanyScope database, which tracks all publicly traded, privately held, and state-controlled companies with annual revenue exceeding $1 billion and maps each one to its global headquarters location (see Box E1, "Introducing the MGI CompanyScope database", for more detail).

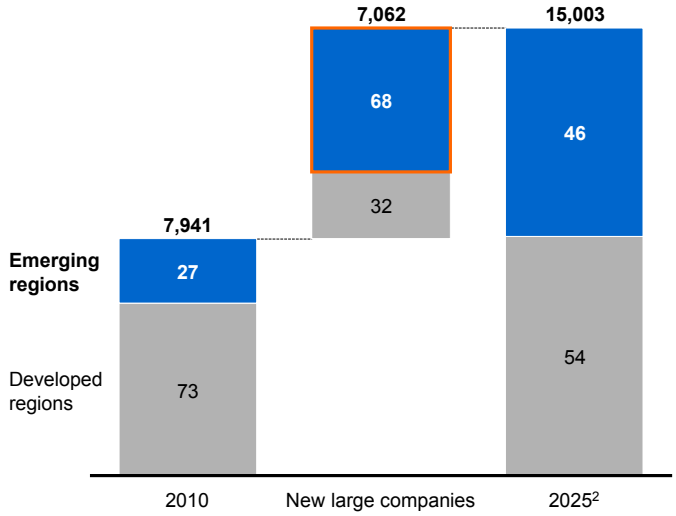
We find that there are some 8,000 distinct large companies worldwide with revenue of $1 billion or more, and three out of four are based in developed regions. We expect an additional 7,000 companies to grow to this size by 2025—and seven out of ten of these new entrants are likely to be based in emerging regions (Exhibit E1).[1]

1 These projections depend on assumptions of future GDP growth, but they are based on relatively conservative company growth assumptions and are directionally robust to a reasonable range of GDP growth projections. Our sensitivity analysis with alternative GDP growth assumptions indicates that by 2025, the total number of large companies with more than $1 billion in revenue may vary from 14,000 to 17,000. Emerging regions' share of the global total varies from 41 to 49 percent. See the technical appendix for the exact definition of developed and emerging regions.

Exhibit E1

Of the 7,000 new large companies that are expected to develop by 2025, seven out of ten will be in emerging regions

%; number of large companies[1]



1 Companies with $1 billion or more in revenue in 2010 or closest available year, captured at headquarters location.
2 Projections for 2025 are based on city GDP forecasts (see technical appendix for methodology).
SOURCE: MGI CompanyScope; McKinsey Global Institute analysis

This shift will be profound because large companies have an outsized impact on their home economies—and even on the global economy through their role in trade flows. In the United States, for example, up to half of GDP volatility can be linked to the performance of 100 companies.[2] In other nations, a single dominant company can make a difference in national economic performance. Together the companies in our database generate consolidated global revenue of around $57 trillion, which is equivalent in size to a striking 90 percent of global GDP.[3] By 2025, we anticipate that their revenue will climb to some $130 trillion.

Just as Japanese and South Korean companies became formidable global competitors in the past half century, new players from emerging markets, such as the Chinese telecommunications networking giant Huawei, Brazilian aircraft manufacturer Embraer, and India's industrial conglomerate Aditya Birla Group, are asserting their presence—and many more are soon to follow. By 2025, some of the global leaders in many industries may be companies we have not yet heard of, and many are likely to be based in cities that we could not point to on a map. The proliferation of large companies is likely to usher in an era of heightened corporate competition for markets, resources, and talent. Companies based in emerging markets can be sources of low-cost innovation that could disrupt entire industries, and many will set their sights on international expansion. Their growth will also represent a major opportunity for service firms and suppliers. To succeed

2 Xavier Gabaix, "The granular origins of aggregate fluctuations," *Econometrica*, volume 39, issue 3, May 2011; Julian di Giovanni and Andrei A. Levchenko, "Country size, international trade, and aggregate fluctuations in granular economies," *Journal of Political Economy*, volume 120, number 6, December 2012; Claudia Canals et al., *Trade patterns, trade balances and idiosyncratic shocks*, working paper number 0721, Banco de España, 2007.

3 The 2010 GDP of 180 countries is included. Company revenue and GDP are not directly comparable because the former includes not just final value added, but also the value of purchased inputs. However, the comparison is indicative of the size of the companies included on the list.

in this more dispersed business landscape, companies may need to reconsider their traditional organizational structures and find new ways to optimize their sales forces.

Cities themselves face intense competition in attracting companies. Of the 2,600 cities in MGI's Cityscope database, only 850 are home to the headquarters of large companies today.[4] In fact, just 20 major cities host one-third of all large companies—and the firms clustered in these top business hubs generate more than 40 percent of the combined revenue of all large companies. The emergence of thousands of next-generation companies will allow hundreds of new locations to host large companies for the first time by 2025. This presents an opportunity for cities to strengthen their local economic base and capture part of the next great wave of growth, assuming a role as hubs in global industry networks and supply chains.

Almost three out of four large companies are based in developed regions today

Any survey of the global business landscape that focuses solely on publicly traded companies will be incomplete. To gain deeper insight into where businesses are located today, we set out to map all large companies, no matter what their ownership structure. Our analysis reveals that 53 percent are publicly traded, 37 percent are privately owned, and 10 percent are state-controlled.[5] However, more than two-thirds of the true global giants—those whose revenue exceeds $50 billion—are publicly traded; only 11 percent are private, and 22 percent are state-controlled.

Although emerging regions will play a much larger role in the future business landscape, the picture today remains very different. We find that almost three-quarters of today's 8,000 large companies are based in developed regions, accounting for 76 percent of the global consolidated revenue of all large companies worldwide in 2010 (Exhibit E2). The United States, Canada, and Western Europe account for 11 percent of the world's population but are home to more than 50 percent of large company headquarters, which collectively account for almost 60 percent of large company revenue globally. In comparison, South Asia is home to 23 percent of the world's population but only 2 percent of all large companies and their consolidated revenue. The strength of longstanding legacy advantages remains clear: 64 of the 150 Western European companies in the 2012 Fortune Global 500, for example, were founded before 1900.

4 We define cities as metropolitan areas that include both a core city and surrounding metropolitan regions integrated into a connected urban region. Major cities include metropolitan areas with 150,000 or more inhabitants in developed regions and 200,000 or more inhabitants in developing regions.

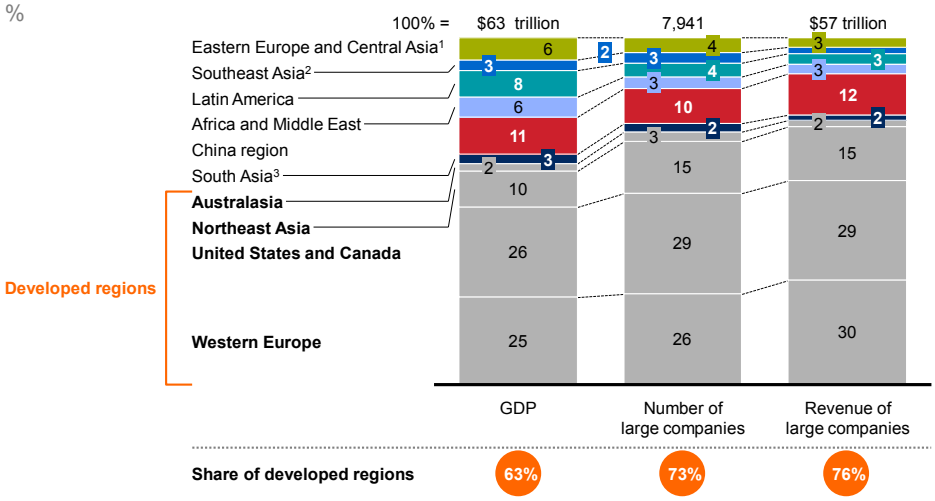
5 We define public companies as those traded on a stock exchange. If the government has a controlling share in a public or private company, we characterize it as state-controlled. We do not include state-controlled public companies in our totals of public companies nor state-controlled private companies in our totals of private companies.

Exhibit E2

Developed regions account for two-thirds of global GDP but almost three-quarters of large companies

2010

%



1 Large companies in Central Asia are in Turkey.
2 Includes large companies in Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam.
3 Includes large companies in India and Pakistan.
NOTE: Numbers may not sum due to rounding.
SOURCE: MGI CompanyScope; McKinsey Global Institute analysis

The continued concentration of large companies in developed regions reflects their larger home economies, as GDP—or the size of local markets—is by far the most significant determinant of company presence. In addition to GDP, we find the following four factors play a role in the relatively low share of large companies in emerging regions to date:

- **Limited reach and scale of the formal market economy.** Broad swaths of emerging economies remain beyond the reach of large companies. Subsistence agriculture, sparsely populated rural areas, and small-scale informal economic activity in cities are unlikely to generate revenue for large companies. There is a significant inverse correlation between the total revenue of large local companies and the share of that country or region that operates in the informal economy. According to the World Bank, Eastern Europe/Central Asia and Latin America have the largest shares of informal economic activity; they also have the lowest ratios of large company revenue to GDP (just below 50 percent). In contrast, the China region has the lowest share of informal economic activity in the emerging world and the highest number of large companies and the largest consolidated revenue relative to GDP.

- **Lower industry consolidation.** Mergers and acquisitions activity has consolidated companies in advanced economies to a greater extent than in emerging regions. For example, the top 30 players in the Chinese retail grocery market accounted for 15 percent of industry revenue in 2010, compared with 62 percent for the top 30 players in the United States; in the automotive industry, the ten leading players accounted for 93 percent of revenue in the United States but only 62 percent in China in that year. This

propels more companies across the "large company" revenue threshold. At the same time, the presence of these large companies gives rise to supply chains and service firms. So overall, the size distribution of companies is remarkably similar across regions, but there are simply more companies of all sizes in developed economies.

- **Less developed service sectors.** As a nation's income rises, its industry mix evolves, typically shifting from agriculture to a higher proportion of industry in the middle-income stage. Services grow continuously as a share of GDP as nations move along the income and economic development curve, adding new dimensions to their economies.[6] Only 38 percent of GDP is generated by services in countries with per capita GDP of less than $5,000, but that share averages 59 percent in countries with per capita GDP of over $40,000. This growth is reflected in the number of large service-sector companies. As incomes rise, we expect the lion's share of all new companies formed will be in services.

- **Limited foreign revenue**. Companies in emerging economies tend to have a lower share of foreign revenue than their counterparts in advanced economies. Looking exclusively at Fortune Global 500 companies, a pool more likely to have broader international reach, companies based in developed economies generate an average of 24 percent of total revenue outside their home region; for those based in emerging economies, the corresponding share is only 14 percent.[7] This is clearly changing. A host of companies from emerging regions—such as Chinese PC maker Lenovo, and Mexico's Cemex (one of the world's biggest producers of cement and building supplies) and Bimbo Group (the world's largest producer of bread)—have already entered new markets abroad. Beyond these examples, companies based in emerging regions are only in the early stages of branching out and expanding their global footprints.

While these findings hold true more broadly for developed versus emerging regions, there are sharp differences in the degree to which individual economies host large companies (Exhibit E3). To highlight these differences and examine the patterns behind them, we created the MGI Headquarters Density (HQD) index, which analyzes the ratio of the consolidated global revenue of all large companies based within a given economy to its GDP.

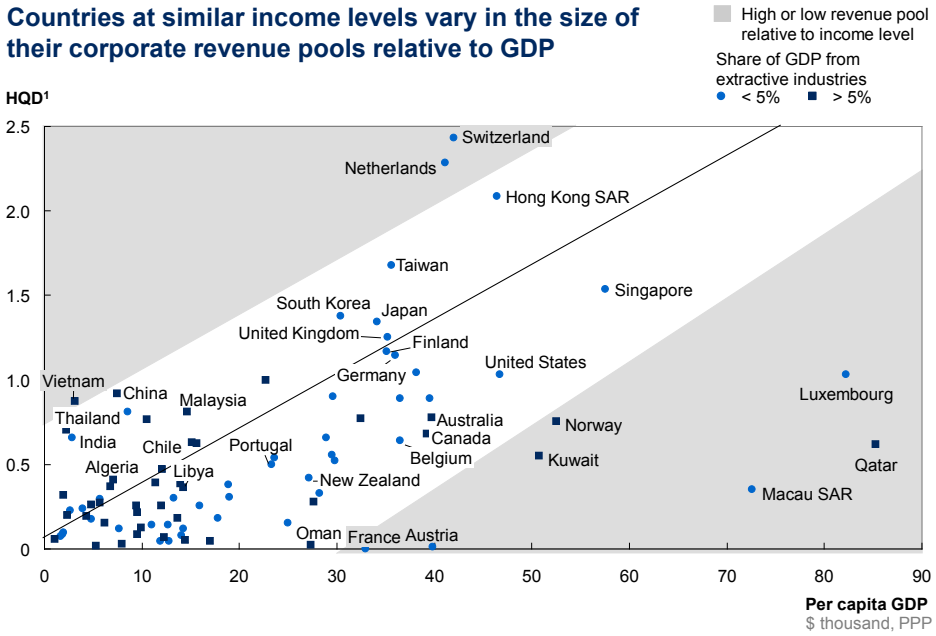
At a broad level, the HQD index confirms the concentration of large companies in developed regions. The total global revenue of large companies based in emerging regions equals 60 percent of their GDP, compared with 108 percent in developed regions. In other words, global revenue relative to GDP in developed regions is not far from double that in emerging regions.

6 *How to compete and grow: A sector guide to policy,* McKinsey Global Institute, March 2010.

7 Fifty-six companies in emerging regions and 374 in developed regions have sufficient data available to be included in this analysis. Because the analysis focuses only on the largest companies, it is likely to underestimate the gap given the number of global energy and resource companies in the emerging region pool; these typically have a higher proportion of revenue from overseas than other companies.

Exhibit E3

Countries at similar income levels vary in the size of their corporate revenue pools relative to GDP



1 The Headquarters Density (HQD) index is defined as the ratio of global consolidated revenue of all companies with total revenue of $1 billion or more that are headquartered in a given country to that country's GDP in 2010.

SOURCE: MGI CompanyScope; McKinsey Global Institute analysis

Yet individual countries with similar income levels vary widely in their HQD. We find that the following three factors play a crucial role in determining a nation's HQD score:

- **Ease and cost of doing business.** Countries with strong reputations for having attractive business environments tend to concentrate higher large company revenue. Corporate taxes play a role in this equation, but they are only one of multiple elements. Our analysis shows that HQD rankings correlate with the World Bank's Ease of Doing Business index, which includes factors such as the number of procedures, time, fees, and minimum capital investment required to start a business, as well as the tax level and associated administrative burden facing medium-sized companies.[8] Among the high HQD locations, Switzerland, the Netherlands, and Hong Kong have all put in place explicit economic development strategies designed to cultivate global companies.

- **High share of extractive industries.** Countries with a particularly high concentration of industries such as oil and gas, including those in the Middle East as well as Australia and Canada, tend to have a lower overall HQD. Typically a country's HQD score decreases by 0.14 for every 10 percent increase in the share of GDP generated from extractive industries. This is potentially a consequence of "Dutch disease" or the "resource curse" effect, in which large resource export revenue may strengthen a country's currency, increase the local cost base, and siphon a lion's share of its talent pool into the resource sector; this reduces competitiveness in other parts of the economy and makes it harder for large companies to develop in other sectors.[9]

8 Full details on the Ease of Doing Business index are available at www.doingbusiness.org.

9 This topic is the subject of an MGI report to be released in December 2013.

- **Openness to foreign companies.** There is evidence that the entry of foreign subsidiaries of more established multinationals can limit the growth of their local competitors, particularly in emerging economies. In Latin America, high import barriers in the second half of the 20th century encouraged local production by multinationals and contributed to the entry of foreign subsidiaries. The region continues to host a relatively large number of foreign subsidiaries but fewer locally based large companies than would be expected given the size of its economy.[10] A similar pattern is evident in Southeast Asia, which has only 3 percent of the world's global headquarters and only 2 percent of large company revenue, but one in ten of the world's foreign subsidiaries and 9 percent of worldwide subsidiaries' revenue.[11] In contrast, Japan and South Korea have both pursued development strategies that have limited the entry of foreign subsidiaries while actively supporting the growth of domestic companies, and they have relatively high HQD scores but few foreign subsidiaries.[12]

Cities are competing for large company headquarters—and only a small number are major hubs today

By mapping the new MGI CompanyScope database to MGI's Cityscope database, we can draw a detailed picture of the head office locations of today's global companies at the city level. This is a snapshot of a landscape in perpetual flux as companies merge and move, and as new companies cross the $1 billion revenue threshold and others drop below it. Mapping companies to the cities where they are headquartered helps shed light on the local environment and business "ecosystem" that shapes the mindset of senior management and thus offers clues to corporate behavior and competitive dynamics.

Despite regional differences, the head offices of major companies are extraordinarily concentrated in a small number of cities—in fact, of the 2,600 cities in MGI's Cityscope database, only 850 host the headquarters of a large company. The top 20 cities of the world (by the number of large company headquarters) are home to around one-third of all large companies and almost half of their combined revenue (Exhibit E4). This is much higher than the 17 percent share of global GDP these cities generate.

10 Latin America generates 8 percent of global GDP, but its companies account for only 3 percent of global large company revenue. The region is home to only 4 percent of the world's global headquarters and 3 percent of headquarter revenue. However, Latin America is home to 11 percent of foreign subsidiaries, generating 8 percent of worldwide subsidiaries' revenue.

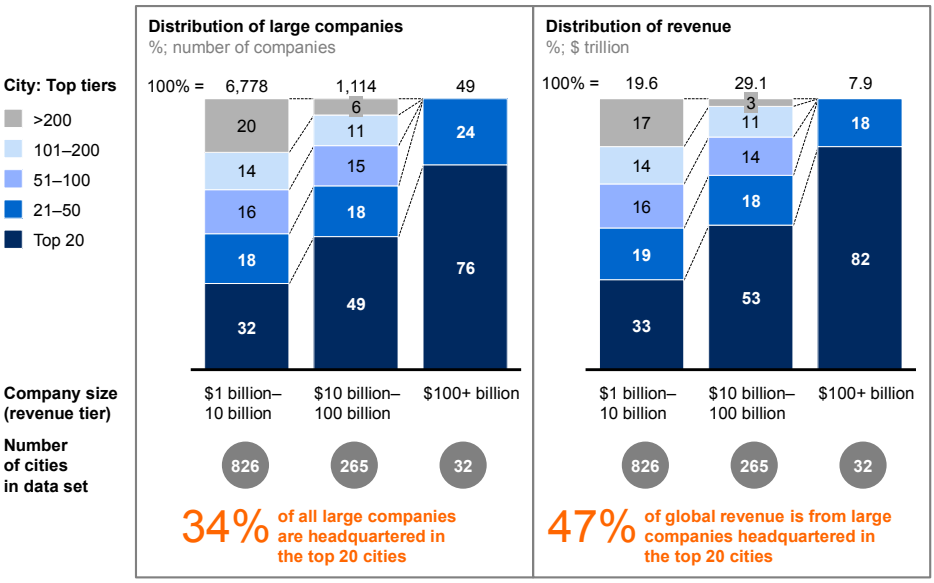
11 This is largely due to Singapore, which has become Asia's leading hub for subsidiaries, but other countries in Southeast Asia also have higher shares of global subsidiaries than of global headquarters.

12 These strategies include preferential financing and the protection of fledgling sectors in the case of some industries perceived to be of strategic importance. See, for example, World Bank, *The East Asian miracle: Economic growth and public policy,* Oxford University Press, 1993; and Ulrike Schaede, "What happened to the Japanese model?" *Review of International Economics,* volume 12, issue 2, May 2004.

Exhibit E4

One-third of large companies are headquartered in only 20 cities

Distribution of large companies and their global revenue by headquarters city



NOTE: Numbers may not sum due to rounding.
SOURCE: MGI CompanyScope; McKinsey Global Institute analysis

There are only ten global cities in total that can lay claim to 100 or more large company head offices (Exhibit E5). Twenty of the top 25 cities are in developed regions, and Tokyo is by far the leading hub, with more than 600. Beijing is the highest-ranking emerging-market city. It places sixth for the total number of global headquarters, with 116, 105 of which are state-owned enterprises (SOE). But the size of these companies places Beijing third globally for total revenue of all companies headquartered in each city, surpassing even New York and London.

The world's 27 megacities (those with populations of ten million or more) are home to 28 percent of large companies and more than one-third of their consolidated revenue. Of these megacities, only Dhaka, Bangladesh, has no headquarters of companies with revenue of $1 billion. But surprisingly, the majority of the world's largest companies are based in cities with populations under five million. For example, Walmart's hometown of Bentonville is located in the metro area of Fayetteville, Arkansas, which has a population of only 470,000. Despite its small size, that same metro area is also home to another member of the Fortune Global 500, Tyson Foods.

The clustering of company headquarters does not simply reflect the patterns of where economic activity takes place. By looking at the share of national GDP produced by leading cities and comparing it with their share of total large company revenue, we can see varying regional patterns. These patterns indicate how concentrated corporate decision making is in different regions; it can also inform the geographical sales footprint of businesses whose customers or clients are senior managers in head offices.

Exhibit E5

Emerging regions are home to only five of the top 25 cities with the most large company global headquarters

Top cities ranked by number of large companies

Emerging regions

		Number of large companies	Total revenue, $ billion	Average revenue per large company, $ billion
1	Tokyo	613	5,231	8.5
2	New York	217	1,964	9.0
3	London	193	1,924	10.0
4	Osaka	174	1,028	5.9
5	Paris	168	2,785	16.6
6	**Beijing**	**116**	**2,503**	**21.6**
7	**Moscow**	**115**	**709**	**6.2**
8	Seoul	114	1,150	10.1
9	Rhein-Ruhr	107	1,220	11.4
10	Chicago	105	695	6.6
11	**Hong Kong SAR**	**96**	**468**	**4.9**
12	**Taipei**	**90**	**472**	**5.2**
13	Los Angeles	82	422	5.1
14	Zurich	79	770	9.8
15	Sydney	75	466	6.2
16	Stockholm	74	360	4.9
17	Houston	74	661	8.9
18	Nagoya	70	481	6.9
19	Randstad	67	1,516	22.6
20	**Singapore**	**64**	**343**	**5.4**
21	Dallas	63	804	12.8
22	Washington, DC	62	655	10.6
23	Toronto	61	436	7.2
24	Munich	61	581	9.5
25	Melbourne	58	289	5.0

SOURCE: MGI CompanyScope; McKinsey Global Institute analysis

Take Northeast Asia as an example. The top three cities in Japan and South Korea (Tokyo, Osaka, and Seoul) produce 48 percent of the region's GDP but are home to 76 percent of its large companies. This level of concentration is likely a holdover from the close public-private collaboration that characterized early industrial policy; these are national or regional capitals, and large companies tended to locate where political and business decisions were made.

The United States, by contrast, has a much wider distribution of large company headquarters, reflecting the specialization of industry-specific "clusters" across the country. New York has the greatest number of large companies overall, but San Jose is the dominant location for high tech, Houston for oil and gas, Chicago for wholesale, Los Angeles for construction and entertainment, and Detroit for the auto industry.

In spite of the dominance of Beijing, a number of medium-sized cities in China are home to vibrant company clusters where a concentration of talent and services is becoming self-reinforcing. For example, Hangzhou has 22 headquarters of large companies across a diverse range of sectors; among them are the pharmaceutical company Huadong Medicine and the manufacturing company Hangzhou Steam Turbine. Shenzhen is a larger hub that is growing rapidly. It is home to a diverse spectrum of large companies, including Huawei Technologies, the world's largest telecom-equipment manufacturer; smartphone manufacturer ZTE Corporation; and Ping An, China's largest non-state-controlled insurance company.

Concentration tends to be the norm in other emerging regions, however. In South Asia, the top three cities contribute just 8 percent of regional GDP but are home to companies that generate 80 percent of the region's company revenue. Mumbai leads, with 57 of South Asia's 172 large company headquarters; Delhi and Bangalore trail with 26 and 11, respectively. In Southeast Asia, Singapore, Bangkok, Kuala Lumpur, Jakarta, Hanoi, and Manila together host 90 percent of large companies in the region. Johannesburg and Cape Town are the leading business hubs in sub-Saharan Africa, with 60 percent of the region's headquarters between them, but five of the 12 African cities with the highest GDP have no large company headquarters at all. In Latin America, companies headquartered in Mexico City have the highest revenue (the largest Mexican companies, such as state-owned petroleum company Pemex and telecommunications giant América Móvil, are located in Mexico City), but São Paulo has the greatest number of large companies in the region, with 48.

Industries vary in both the weight of large companies and the patterns that characterize the geographic distribution of their head offices, reflecting differences in the nature of their business. Companies in extractive industries, for example, are headquartered across a large number of cities around the globe. They are also the least geographically correlated with the locations of headquarters in other industries. The leading hub for energy companies, Houston, is home to 36 large companies in the oil and gas industry—more than the next two cities combined (Calgary, with 20, and Tokyo, with 15).

Of the 8,000 large companies in the MGI CompanyScope database, 33 percent are in the manufacturing sector. Tokyo has 263 manufacturing companies, in a broad range of subsectors, with revenue of more than $1 billion. That is almost three times as many as second-placed Osaka, which has 93 manufacturing headquarters. While low-tech manufacturing is spread across a wide range of cities, advanced automotive and electronics manufacturing activity tends to cluster in a smaller number of dominant hubs.

Overall, service companies are more likely to locate their head offices in cities with many other large companies. In fact, all ten cities with the most head offices in these sectors are the same as the top ten overall (led by Tokyo, New York, and London). However, variations exist across different service activities. Business services such as advertising and consulting are likely to locate close to their customers, in cities with a large total number of company headquarters. Insurance and banking headquarters are likely to align to global financial hubs. However, industries such as health care and real estate are highly local in nature, as a result of either regulation or the need to have access to local expertise. Their headquarters are found in a large number of medium-sized cities spread across different countries and regions.

Foreign subsidiaries are similarly clustered, but in different hubs

To understand the role of foreign subsidiaries, we have identified 2,300 of these operations with $1 billion or more in revenue in the MGI CompanyScope database. Developed regions are home to two-thirds of the 2,300 large subsidiary head offices in our database—lower than their three-quarters share of large company headquarters. Western Europe is home to a very high 41 percent of the global total, 3.4 times the US share, as European firms have expanded across national borders to penetrate more of Europe's single market.

Today large foreign subsidiaries are still predominantly from parent companies based in advanced economies, and they are heavily concentrated in just a few key cities in each region. In the emerging economies of Asia outside the China region, for instance, more than half of foreign subsidiaries are in Singapore. In Latin America, 23 percent of foreign subsidiaries are located in São Paulo.

The list of top cities chosen for foreign subsidiary offices diverges from the list of top cities for headquarters. London, Paris, and New York rank first, third, and fourth for subsidiaries, but second and sixth places go to Singapore and São Paulo, which are ranked 20 and 35, respectively, among the top hosts of global headquarters. The divergence between leading locations for global headquarters and subsidiaries is particularly striking in emerging regions (Exhibit E6).

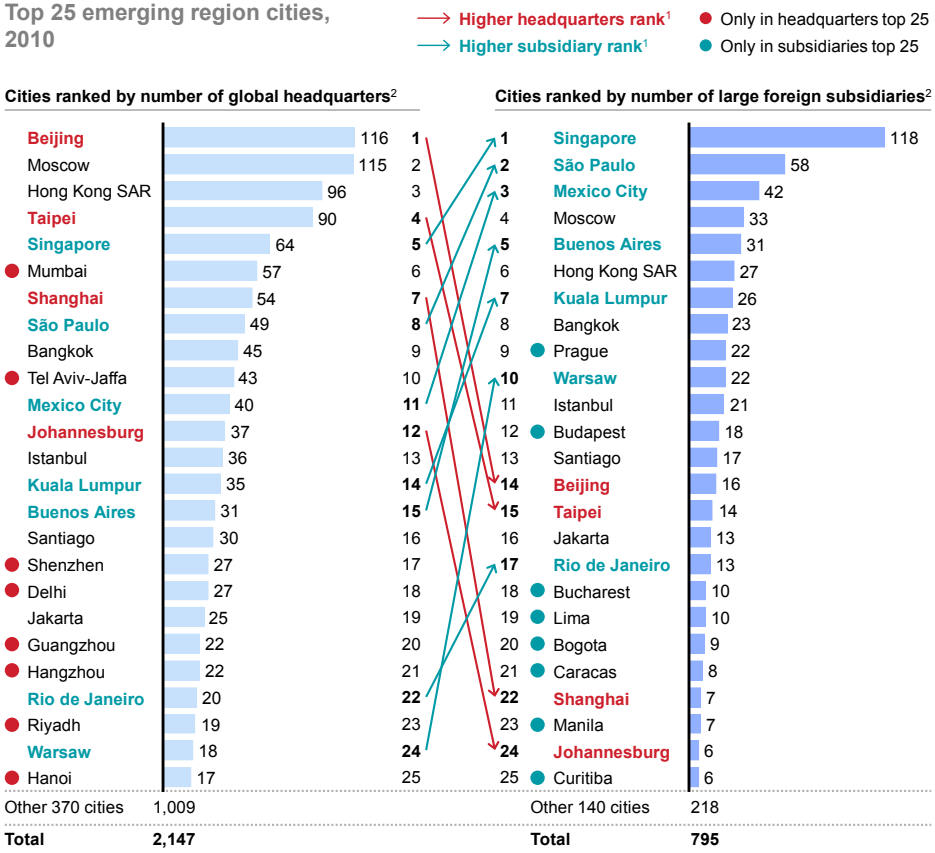
Companies tend to grow organically in the cities where they are founded, developing local ties that become "sticky"; as a result, company headquarter moves are relatively uncommon. Cities in both the developed and emerging worlds may find that it pays to focus their efforts on attracting regional head offices as thousands of global companies, both old and new, expand into new markets in the coming decade.

At present, across all geographical regions, large foreign subsidiaries seem to cluster in cities that are not just well connected and good places to do business, but where senior managers would like to live. Cities with reputations for a high quality of life—such as Sydney, Toronto, Prague, and Singapore—have been relatively more successful in attracting the foreign operations of multinationals. But the more diverse companies from the emerging world may factor in a broader set of criteria when selecting locations for future expansion, including the personal ties of executives who were educated abroad, the need to diversify family holdings, reputation building in their home markets, and a greater willingness to enter frontier markets.

Exhibit E6

In emerging regions, the leading cities for global headquarters differ significantly from the locations of choice for foreign subsidiaries

Top 25 emerging region cities, 2010



1 By more than three places.
2 Companies with revenue of $1 billion or more in 2010 or closest available year.
SOURCE: MGI CompanyScope; McKinsey Global Institute analysis

The company landscape is just beginning to undergo a pronounced shift toward emerging regions

Based on analysis of GDP forecasts and historical ratios of company prevalence to GDP, we expect an additional 7,000 companies to cross the $1 billion revenue threshold by 2025, and a clear majority of the newcomers will likely be from the emerging world. The number of large companies based in emerging regions is set to more than triple, and their share is expected to increase from 27 percent of the global total today to over 45 percent by 2025. We expect a similar shift of global consolidated revenue, with the share generated by large companies based in emerging regions rising from 24 to 46 percent.

It is not possible to project the growth of individual companies or cities with precision, of course, given the number of variables at work. But despite recent volatility in emerging markets, we believe the broad patterns of long-term growth

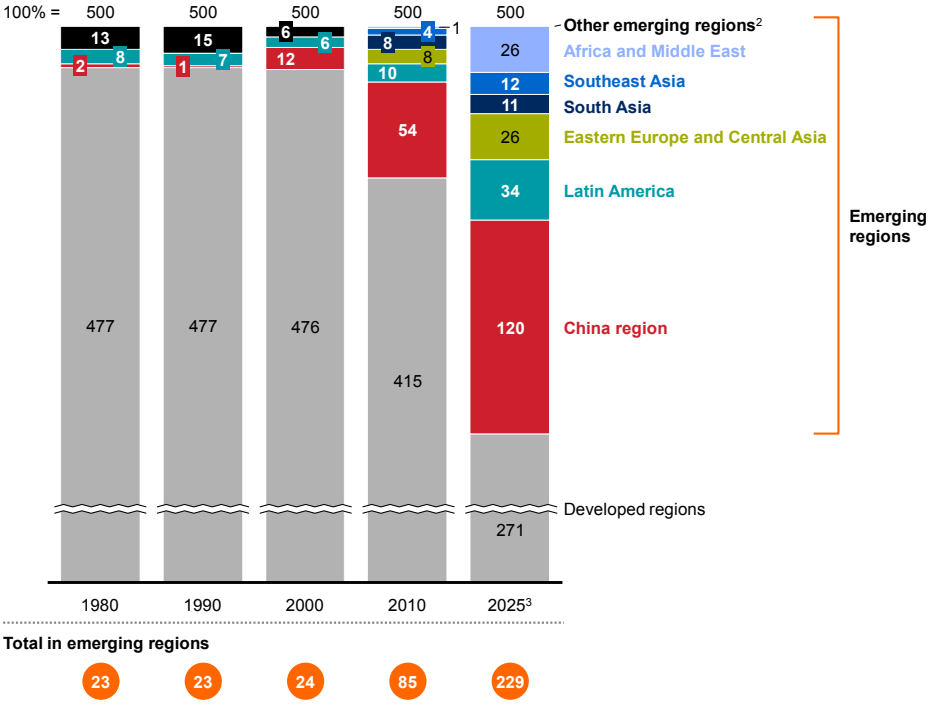
will continue, and our analysis remains remain robust across a reasonable range of key assumptions.[13]

The changing roster of the Fortune Global 500 provides a vivid illustration of this trend (Exhibit E7). Between 1980 and 2000, the share of companies on the list based outside developed regions stayed relatively flat, at 5 percent. By 2010, this share was up to 17 percent of the total, and it has climbed further to reach 26 percent in 2013. Based on projected growth by region, we expect the emerging world to account for more than 45 percent of the Fortune Global 500 by 2025. We also anticipate that roughly 120 of the names on the 2025 list will be based in the China region.[14]

Exhibit E7

By 2025, emerging regions are expected to be home to almost 230 companies in the Fortune Global 500, up from 85 in 2010

Evolution of the Fortune Global 500[1]
Number of Fortune Global 500 companies



1 The Fortune Global 500 is an annual ranking of the top 500 companies worldwide by gross revenue in US dollars.
2 Shares of emerging regions excluding China and Latin America combined until 2000.
3 Fortune Global 500 share in 2025 projected from revenue shares of countries in 2025.
NOTE: Numbers may not sum due to rounding.
SOURCE: MGI CompanyScope; McKinsey Global Institute analysis

13 Our estimates of the number of large companies and their collective revenue by city are based on the expected GDP growth of each city and the patterns of large company presence (number and collective revenue) across cities of different sizes today. Our estimates are relatively conservative: we assume that the historically observed relationships of city GDP to the number of local companies will hold in 2025. MGI estimates city-specific GDP growth rates from 2010 to 2025 based on the average of country GDP growth projections from IHS Global Insight, the Economist Intelligence Unit, Oxford Economics, and McKinsey's Long-Term Growth Model in combination with region-specific approaches that reflect whether past GDP growth data were available for the city or not.

14 We performed a sensitivity analysis using different GDP growth assumptions and found that the emerging regions' share of Fortune Global 500 companies in 2025 varied from 39 to 50 percent.

As local economies in emerging regions continue to grow, markets for consumer goods (and increasingly for services) are expanding and becoming more accessible, propelling more companies across the $1 billion revenue threshold. Among the underlying sources of GDP growth that will fuel this trend in emerging regions are rapid urbanization, income growth, and exchange-rate appreciation.[15] At the same time, growing density allows local companies to benefit from economies of scale and support a broader base of suppliers. Emerging regions will increase the base of large companies relative to their GDP, narrowing the current gap with developed regions.

The leading business hubs in emerging regions today are likely to continue to attract a disproportionate share of future company growth. São Paulo, for example, is expected to more than triple its number of large company headquarters by 2025, while Beijing and Istanbul could have more than twice as many head offices as they do today. Some 400 cities in emerging regions already host at least one large company (and many more in some cases), and our analysis suggests that this same set of cities will add more than 3,900 companies by 2025—an increase of more than 180 percent.

Despite the robust growth of existing business hubs, company headquarters will become more dispersed across the emerging world. Today, 80 percent of the 2,200 large companies in emerging economies are spread across almost 100 cities; by 2025, 80 percent of the 7,000 large companies are likely to be spread across nearly 160 cities. We estimate that roughly 280 up-and-coming cities in emerging economies could host a large company for the first time. Among the newcomers could be such cities as Shantou, China; Campinas, Brazil; and Izmir, Turkey.

Geographic rebalancing will have important implications for market opportunities, competition, and economic growth

The corporate giants that emerge in the years ahead will be central actors shaping the global economy. They will fuel local growth in some regions and reconfigure global transport and communications networks.

Companies in emerging regions serve home markets that are more diverse than the world's mature markets, and they have learned to compete for customers at very different income levels. In the course of adapting to constraints in physical and social infrastructure and to differing regulatory environments and enforcement practices, many of them are developing a corporate culture of ingenuity, making them potentially formidable competitors for today's global incumbents.

We expect almost half of all large companies in 2025 to be new ones that join the pool in the coming years. Many will become faster-growing "gazelles" that will generate the bulk of new jobs and value added in the global economy—along with significant business opportunities for their suppliers and service providers. This is not an entirely new story: in the 1970s and 1980s, many US and European incumbents were caught unaware by the swift rise of Japanese companies that set a high bar for productivity and innovation. More recently, South Korean

15 *Urban world: Cities and the rise of the consuming class,* McKinsey Global Institute, June 2012.

companies such as Hyundai and Samsung have shaken up the leading ranks of high-value-added industries from automobiles to personal electronics.

Emerging-market companies come from distinct regulatory and corporate cultures, and they may operate quite differently than Western multinationals. South Korean companies are a case in point. Many South Korean firms are family controlled, enabling them to take a longer view that supports heavier capital investment and to build market share at the expense of short-term quarterly profits. Their R&D is extensive, and it moves quickly due to long working weeks and intense internal competition between R&D teams. These companies have access to a hard-working and well-educated workforce, and can have a leading position in their home market. These add up to a potent combination that has enabled the rapid growth of South Korean companies, many of which are now heavily studied by companies from other emerging markets. In the coming decades, new challengers will appear from multiple countries, with an ever-widening array of innovative strategies and business models. Today's CEOs need to prepare for this new wave of competitors by understanding who they are and how they will compete differently.

BUSINESSES NEED TO UNDERSTAND THE NEW COMPANY LANDSCAPE TO TRACK COMPETITION AND TAILOR THEIR ORGANIZATIONS

Most consumer-facing companies are already intensely focused on the rapidly expanding consumer class and the growing pool of skilled people in the labor forces of emerging economies, and are putting in place strategies for entering the most attractive markets. But today, executives have to consider emerging economies not only as consumer markets and a source of labor, but also as a source of rising companies that will be potential customers and competitors. Today's business leaders face three key imperatives:

1. **Optimize sales network according to where business customers are based.** Business-to-business (B2B) companies—that is, those whose customers are other businesses—will face a profound shift in the geography of their markets, and they need to assess how to organize themselves to sell to a much more diverse and dispersed customer base. This will entail rethinking and perhaps redeploying their sales networks. Yet few companies today have a sufficiently reliable picture of their new potential customer base to say definitively how many sales offices they will need to establish in new cities in order to cover the bulk of their target market—let alone how this is likely to evolve in the future. Optimizing a company's sales force is not a one-off decision. The business landscape is continuously evolving, and the challenge will be to stay abreast of its movements. This issue will require continuous monitoring and greater sales force mobility.

2. **Understand how the ecosystem for customers and competitors is evolving.** Companies need to track up-and-coming hubs in emerging regions, where new competitors are developing more diverse business models. Business leaders will need to watch for new sources of innovation and potentially disruptive change. And it is only a matter of time before the most successful companies in the emerging world set their sights on international expansion. Companies from emerging regions are growing faster than their counterparts from developed regions—not only in their home markets, but

also in overseas markets.[16] (Witness the aggressive expansion of India's Tata Motors into Europe over the past decade.) As incumbents in advanced economies find new challengers arriving in their own backyard, they will need to be prepared to compete not only for global customers but also for talent, capital, and resources. Small and medium-sized cities across the emerging world pose a particular blind spot, yet they may give rise to future competitors. Hsinchu, in northern Taiwan, for example, is not a household name, but it is already the fourth-largest advanced electronics and high-tech hub in the China region, home to 13 large company headquarters in these industries. Similarly, Brazil's Santa Catarina metropolitan district is not yet on the radar of most executives, but it has become a regional hub for electronics and vehicle manufacturing, hosting several billion-dollar companies such as WEG Indústrias S.A. New industry hot spots will be sources of both competition and demand.

3. **Reconsider headquarters configuration and location choices**. Once companies gain a thorough understanding of their industry's new ecosystem, they may need to rethink the structure and location of senior management in response to it. Already, many are finding that the traditional single-headquarters model no longer meets their needs. Some have set up secondary headquarters or split head office functions to align more closely with markets outside their home territory. General Electric, Caterpillar Group, and others have divided their corporate centers into two or more locations that share decision making, production, and service leadership. Unilever created a second headquarters for global development in Singapore, which now houses key members of the company's senior leadership team to complement the traditional headquarters in London. Some companies from emerging regions may expand globally not only to enter new markets but also to gain new capabilities as they do so; Brazilian aerospace company Embraer and China's telecommunications giant Huawei leapfrogged some technological learning stages and accelerated growth by adopting a mergers and acquisitions strategy in developed regions.

THE RISE OF NEW GLOBAL COMPANIES CREATES OPPORTUNITIES FOR NATIONS AND CITIES, BUT COMPETITION IS GETTING TOUGHER

The rapidly rising number of large companies is welcome news for nations and cities, and it represents an especially important opportunity for emerging regions seeking to reach the next level of economic development and prosperity. Yet not all locations will emerge as winners. What is clear is that a broadening base of cities from the emerging world (including smaller cities) will continue to integrate into global markets, and the competition among cities for headquarters and subsidiaries will intensify.

The headquarters of large companies tend to remain where the businesses grew organically. Cities with large and diversified local urban economies and favorable business environments create the right conditions for greater numbers of new firms to thrive and grow. A rising population generates demand, enabling companies to scale up and expanding the availability of labor and talent. City leaders can take an active role in strengthening schools and creating vocational

16 *Winning the $30 trillion decathlon: Going for gold in emerging markets,* McKinsey & Company, August 2012.

training programs; locations with research universities and access to a pool of new graduates will have an advantage in this new era. Cities and nations also have to focus on creating a competitive business environment with streamlined and efficient regulatory and permitting processes. In addition to talent, companies look for good airport facilities, lower corporate taxes, competitive wages, and the presence of other companies in related industries. Once a budding industry cluster reaches critical mass, it can become a magnet for talent, capital, and other startups.

Beyond cultivating the growth of local businesses, forward-looking cities and nations want to attract existing companies that are looking to relocate all or part of their head offices—an infrequent but not unknown occurrence, with larger and younger companies more likely to undertake such a move. Yet the more promising avenue for most cities is to attract foreign subsidiaries, especially those of rising emerging-market multinationals. Thousands of such companies are expanding, and these moves are a moment when companies can exercise real choice in locations. Some entrepreneurial mayors are already making moves to seize this opportunity. China is the most powerful growth engine for new global companies, and now is the time for forward-thinking cities to build their reputations among Chinese business leaders. London's mayor, for example, signed a $1.6 billion deal with a property developer to turn the Royal Albert Dock into a Chinese business district, while Chicago launched a campaign to establish itself as the most China-friendly city in the United States.

For local leaders, a good starting point is to understand how companies make location choices and where their city faces challenges in the course of that process. If their country or city does not make it into the round of initial consideration, the imperative is to improve its visibility and reputation nationally or internationally, through either broad-based marketing or more proactively courting large anchor companies. It is also important to assemble a realistic fact base on how a city stacks up against its competitors on such criteria as market potential, wages and other costs, talent pool, logistics and other infrastructure, regulatory factors, risk, and others—and then to focus on areas that can be improved, whether that entails cutting red tape or modernizing infrastructure. Toronto's Board of Trade, for example, has formalized this process by tracking the city's evolving strengths and weaknesses against 24 other cities in an annual report. And in the end, the responsiveness, professionalism, and helpfulness of city representatives can tip decisions.

□ □ □

Today the world's major companies are remarkably concentrated in a small number of cities. Studying today's patterns—both by city and by industry—can yield valuable insights, but because emerging economies are growing at dramatically different speeds, business leaders have to continuously monitor these trends in order to spot new markets and competitors. The next ten to 15 years are likely to bring about a seismic shift that challenges the longtime dominance of Western companies. But while the rise of new corporate giants will surely heighten competition for companies and cities alike, it is far from a zero-sum game. It will open up possibilities for economic growth in new corners of the globe. In addition, these up-and-coming companies may provide a much-needed injection of dynamism and new ideas that will drive innovation, productivity, and job creation. All of these factors are likely to shape not just where but *how* businesses operate around the globe for decades to come.

Box E1. Introducing the MGI CompanyScope database

The new MGI CompanyScope database includes around 8,000 public and private companies and SOEs, all with annual revenue of $1 billion or more. It captures information on their global consolidated revenue (which combines revenue from the parent company with that of its subsidiaries), the industries in which they operate, and their headquarter cities. Most of the jobs associated with large companies are not concentrated in their head offices, but information on the location of headquarters is the best available proxy for understanding where large companies are based and how that ecosystem might influence the way they operate. In addition to tracking the world's largest companies, the database includes some 2,300 foreign subsidiaries with revenue of more than $1 billion.

Several features and findings are worth noting.

Companies are mapped to their operational rather than legal headquarter location. For tax reasons, or due to the legal infrastructure of a particular jurisdiction, many companies incorporate in a country or city where they have a limited physical presence. However, we have used the location where the most senior executives are based rather than a company's legal home. For example, we consider Glencore to be based in Switzerland although the business is legally incorporated in Jersey in the Channel Islands. The legal headquarters of Latin American metal manufacturer Ternium S.A. is in Luxembourg, but our database maps the company to Buenos Aires, where the CEO and other top management members are based.

Pure holding companies are excluded and conglomerates are counted as a single company to ensure complete coverage without double-counting of revenue. We include only companies providing goods or services to customers, rather than companies whose main purpose is to hold shares of other companies. Further, any company that is 50 percent or more owned by another company in the database is considered a subsidiary, not a global company. For example, we do not include Berkshire Hathaway but do include companies in which it invests (such as Geico, Heinz, and Fruit of the Loom) whose revenue exceeds $1 billion. Porsche and Audi are included as subsidiaries, not as separate companies, since both are owned by Volkswagen. Our database includes separate companies that are controlled by a single family or corporate group (for example, Tata Group companies and Japanese *keiretsu* groups).

Each company is mapped to a single global headquarter city from MGI's Cityscope database. The headquarter location for Glencore, mentioned above, is listed as Zurich, which is the closest MGI Cityscope urban region to Baar, the physical location of the company's head office. In cases where companies are dual listed or have dual headquarters, we have opted for the location where most senior executives have their main offices, and we treat other

locations as subsidiaries. For example, although Rio Tinto is dual listed on the London Stock Exchange and the Australian Securities Exchange, we consider London to be the headquarters because this is where the CEO and around half of the other top management members are based. In the case of General Electric, which has its global growth and operations division in Hong Kong, we consider its corporate headquarters to be Fairfield (in the Bridgeport, Connecticut, metropolitan area), despite the company's dispersed head office structure. In cases where companies have more than one international headquarter location with regional revenue greater than $1 billion, we include the rest in the subsidiaries database.

The inclusion of privately held companies and SOEs offers a more comprehensive picture of economic activity. In addition to tracking publicly traded companies, MGI CompanyScope includes privately held firms, which account for more than one-third of the world's largest companies. It also includes more than 800 SOEs—and in fact, their average revenue is larger than that of either public or private companies in the database. Seventy-seven percent of SOEs are located in emerging regions. Among companies with revenue exceeding $50 billion, more than one in five is state-owned, including Saudi Aramco, Brazil's Petrobras, and China National Petroleum. But not all SOEs are global giants: South Korea's Incheon International Airport Corporation, Aeolus Tyre Company in the Henan Province of China, and Russian oil company JSC Zarubezhneft, for example, all have revenue between $1 billion and $2 billion.[17]

Manufacturers are most numerous among the world's largest companies, while extractive industries and insurance are dominated by a smaller number of giants. Among all 8,000 large companies, manufacturers are by far the largest industry group, with almost one-third of the total, or 2,600 companies. The utilities, transport, and construction sector has 1,270 companies in the database, followed by the wholesale and retail sector, with 1,030. Only 520 large companies in extractive industries (that is, oil, gas, and mining) are included, but their average revenue is $15.0 billion, exceeding that of all other industries. This sector is dominated by a small number of oil majors, mining giants, and huge SOEs; just ten of them have combined revenue of $2.5 trillion. Some 39 percent of all large companies in extractive industries are based in emerging regions. Insurance is another sector represented in the database by a relatively small number of large companies, but with average revenue of $12.4 billion; these include giants Allianz SE, AXA, and Assicurazioni Generali in Western Europe as well as Japan's Nippon Life Insurance. In other sectors, just over half of the 348 textiles, paper, printing, and furniture manufacturing firms in the database have revenue between $1 billion and $2 billion.

17 SOEs with revenue over $1 billion are most numerous in transport and communication (117); banking (103); electricity, gas, and water supply (85); and extractive industries (96). SOEs have the highest total revenue in extractive industries, where 96 companies have total revenue of $2.6 trillion.

1. Developed regions dominate the global company landscape today

The emerging world is not only producing millions of new consumers; it also is beginning to produce a wave of new companies. Some of them have already entered the ranks of the world's largest corporate giants, and many more will soon follow, changing the competitive dynamics in a wide variety of industries.

Today, however, the world's largest companies are still heavily concentrated in advanced economies. As a group, these giants have historically been poorly studied. To complete this research, we developed our own MGI CompanyScope database, which tracks all companies around the world with annual revenue exceeding $1 billion, and maps each one to its global headquarters location. We find that some 8,000 companies worldwide—a mix of publicly traded, privately owned, and state-controlled businesses—meet this benchmark (see Box E1, "Introducing the MGI CompanyScope database", in the Executive summary for more detail).

Together the large companies that fit our definition generate combined global revenue of around $57 trillion, which is equivalent to 90 percent of global GDP.[18] We estimate that they account for around 40 to 50 percent of the revenue of companies of all sizes worldwide.[19] Their sheer size makes these companies an interesting pool to study. Recent academic research has shown that large companies have an outsized impact on their home economies—and even on the global economy through their role in trade flows. In the United States, for example, other studies have shown that up to half of GDP volatility can be traced to the performance of 100 companies.[20] In other nations, individual companies can make a difference: Nokia, for instance, posted 2011 global revenue equal to 44 percent of the national budget in its home country of Finland. Samsung and LG exert similar ripple effects in South Korea, while Saudi Aramco plays a leading role in the Saudi Arabian economy.

18 Company revenue and GDP are not directly comparable because GDP is a value-added measure whereas company revenue includes not only the value added generated by the company but also the value of its purchased inputs. However, the comparison is indicative of the size and influence of the companies included in the database.

19 We base this estimate on a sample of countries, taking the ratio of revenue of large companies in the MGI CompanyScope database to total company revenue in the United States, France, Germany, South Korea, and Japan, as derived from the US Economic Census, 2007; INSEE (France), 2010; the Federal Statistical Office of Germany, 2010; KOSIS (South Korea), 2010; and the Ministry of Finance in Japan, 2010. Given that company distribution by size varies relatively little between developed and emerging regions (see Chapter 2 for more), this is likely to provide a directionally reasonable estimate of global distribution.

20 Xavier Gabaix, "The granular origins of aggregate fluctuations," *Econometrica*, volume 39, issue 3, May 2011; Julian di Giovanni and Andrei A. Levchenko, "Country size, international trade, and aggregate fluctuations in granular economies," *Journal of Political Economy*, volume 120, number 6, December 2012; Claudia Canals et al., "Trade patterns, trade balance and idiosyncratic shocks," *Journal of Political Economy*, 2012.

Most of the jobs associated with major corporations are not concentrated in their head offices, of course, but headquarters location is the best available proxy for understanding where large companies are based and how patterns of geographic concentration are changing. The home base of a given company and the location of its leadership may also offer clues regarding corporate behavior and competitive dynamics.

Because large companies drive innovation, productivity, and jobs, their evolution and movement will determine much of the next wave of global growth. This chapter surveys the current landscape and examines some of the factors behind company concentration in individual economies.

Almost three out of four large companies are still based in developed regions

Larger economies are naturally home to more large companies. The United States hosts the highest number of large company headquarters, roughly a quarter of the global total, followed by Japan, China, Germany, the United Kingdom, and France (Exhibit 1).

Exhibit 1

The United States, Japan, and China together host about half of all large company headquarters worldwide

2010

Emerging regions

		Number of companies	Company revenue $ billion	Average revenue per company $ billion
1	United States	2,102	15,159	7.2
2	Japan	1,028	7,347	7.1
3	China	577	5,449	9.4
4	Germany	466	3,763	8.1
5	United Kingdom	360	2,821	7.8
6	France	237	3,070	13.0
7	Australia	202	958	4.7
8	Canada	192	1,069	5.6
9	Italy	177	1,140	6.4
10	Russia	165	924	5.6
11	India	158	898	5.7
12	South Korea	151	1,398	9.3
13	Taiwan	140	721	5.1
14	Brazil	135	817	6.1
15	Switzerland	131	1,284	9.8
16	Netherlands	115	1,786	15.5
17	Sweden	107	479	4.5
18	Hong Kong SAR	96	468	4.9
19	Austria	91	335	3.7
20	Spain	84	738	8.8
21	South Africa	67	279	4.2
22	Singapore	64	343	5.4
23	Mexico	63	398	6.3
24	Norway	61	312	5.1
25	Turkey	57	221	3.9

SOURCE: MGI CompanyScope; McKinsey Global Institute analysis

Given the rapid recent growth in emerging economies, it may seem surprising that almost three-quarters of large companies are still based in developed regions. But GDP is the largest determinant of company presence, and emerging economies still represent only around one-third of global GDP (Exhibit 2). Of the 8,000 large

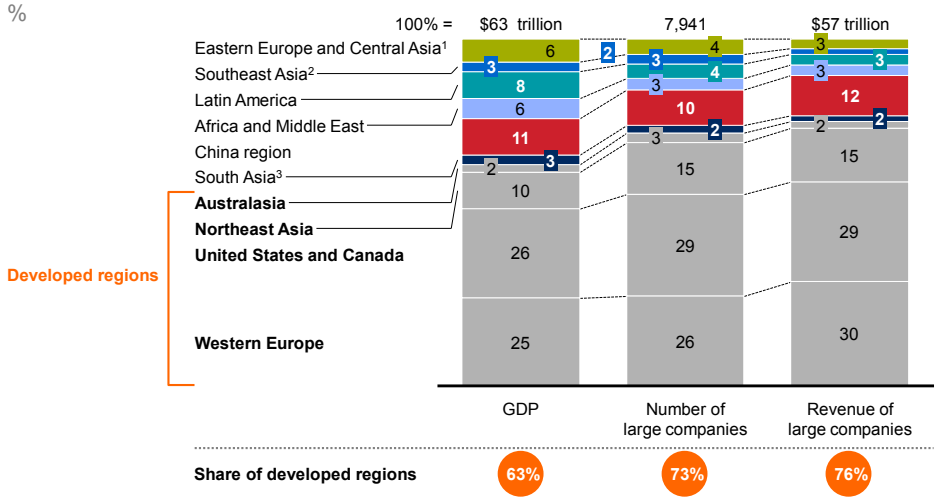
companies in our database, 73 percent are headquartered in developed regions, and these firms generated 76 percent of the global consolidated revenue of all large companies in 2010. This is despite the fact that developed regions account for only 14 percent of the world's population and 64 percent of global GDP. In comparison, South Asia is home to 24 percent of the world's population but only 2 percent of all large companies and their consolidated revenue.

Exhibit 2

Developed regions account for two-thirds of global GDP but almost three-quarters of large companies

2010

%



1 Large companies in Central Asia are in Turkey.
2 Includes large companies in Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam.
3 Includes large companies in India and Pakistan.
NOTE: Numbers may not sum due to rounding.
SOURCE: MGI CompanyScope; McKinsey Global Institute analysis

Today, the strength of long-standing legacy advantages remains clear. Europe, for example, has a strong pool of companies that are more than a century old; in fact, 64 of the 150 Western European companies in the 2012 Fortune Global 500 were founded before 1900.[21] They include insurers Allianz and AXA; manufacturers Siemens and ThyssenKrupp; conglomerate Unilever; banks such as Barclays and Credit Suisse; and resource companies such as BP. North America, by contrast, gets more of its dynamism from younger, rapidly growing firms.[22] Yet despite notable recent success stories such as Google, Facebook, and Amazon, 43 of the 132 US companies on the 2012 Fortune Global 500 list were founded before 1900.

The corporate landscape has begun to shift, but this trend is still in its early phases. From 1980 to 2000, only 5 percent of the Fortune Global 500 companies were located outside developed regions. By 2010, 17 percent of the largest companies were in emerging regions—and as we will explore in Chapter 3, we expect that share to top 45 percent by 2025. The growing presence of companies from the China region in the Fortune Global 500 is particularly striking. In 2000, only 12 had cracked the list, but by 2010, that number had increased to 54. By 2013, 89 had joined the rankings.

21 We are referring to the original founding year, even if the company was founded under a different name.

22 Thomas Philippon and Nicolas Véron, *Financing Europe's fast movers*, Bruegel policy brief, issue 1, January 2008.

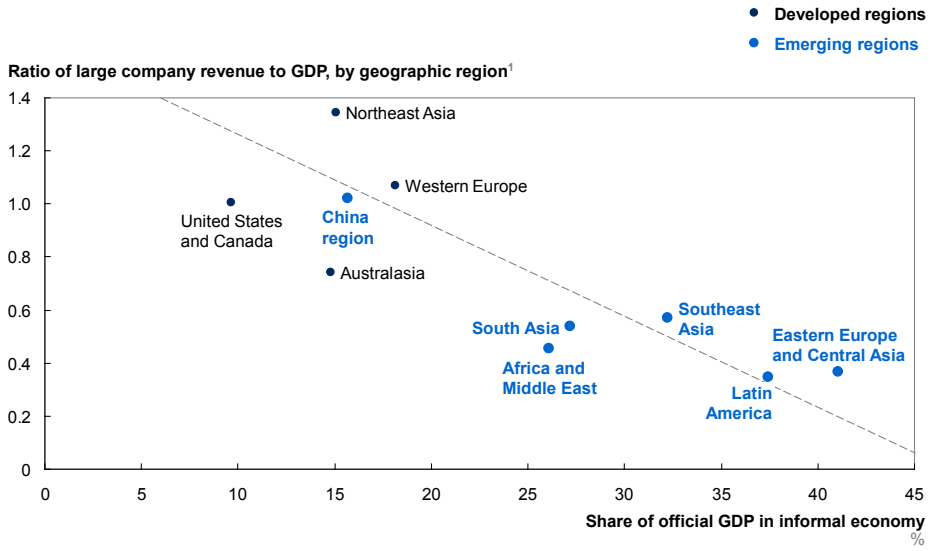
FOUR FACTORS CONTRIBUTE TO THE LOWER SHARE OF LARGE COMPANIES BASED IN EMERGING REGIONS

The continued concentration of large companies in developed regions reflects their larger home economies, as GDP—or the size of local markets—is by far the largest determinant of company presence. In addition to their lower share of global GDP, the following four factors play a role in the relative underrepresentation of large companies in emerging regions to date:

- **Limited reach and scale of the formal market economy.** Broad swaths of emerging economies remain beyond the reach of large companies. Subsistence agriculture, sparsely populated rural areas, and small-scale informal economic activity in cities are unlikely to generate revenue for large corporations. There is a significant inverse correlation between the revenue of large local companies and the share of that country or region that operates in the informal economy (Exhibit 3).[23] According to the World Bank, Eastern Europe/Central Asia and Latin America have the largest shares of informal economic activity; they also have the lowest ratios of large company revenue to GDP (just below 50 percent). In contrast, the China region has the lowest share of informal economic activity in the emerging world but the highest number of large companies and the largest consolidated revenue relative to GDP.

Exhibit 3

Emerging countries typically have a greater share of informal economic activity, which tends to constrain large company revenue



1 Global consolidated revenue of companies with revenue of more than $1 billion with headquarters in region divided by region's GDP.

SOURCE: Friedrich Schneider et al., *Shadow economies all over the world: New estimates for 162 countries from 1999 to 2007*, World Bank Development Research Group, July 2010; McKinsey Global Institute analysis

23 In Exhibit 3, we use the World Bank's definition of the "informal economy," which includes all market-based legal production of goods and services that are deliberately concealed from public authorities in order to avoid payment of tax or social security contributions, avoid labor market standards, or avoid administrative procedures. This definition and data are taken from Schneider et al., *Shadow economies all over the world: New estimates for 162 countries from 1999 to 2007*, World Bank Development Research Group, July 2010. See also the following section in this chapter, on the prevalence of large companies in individual economies, for a detailed explanation of "headquarters density."

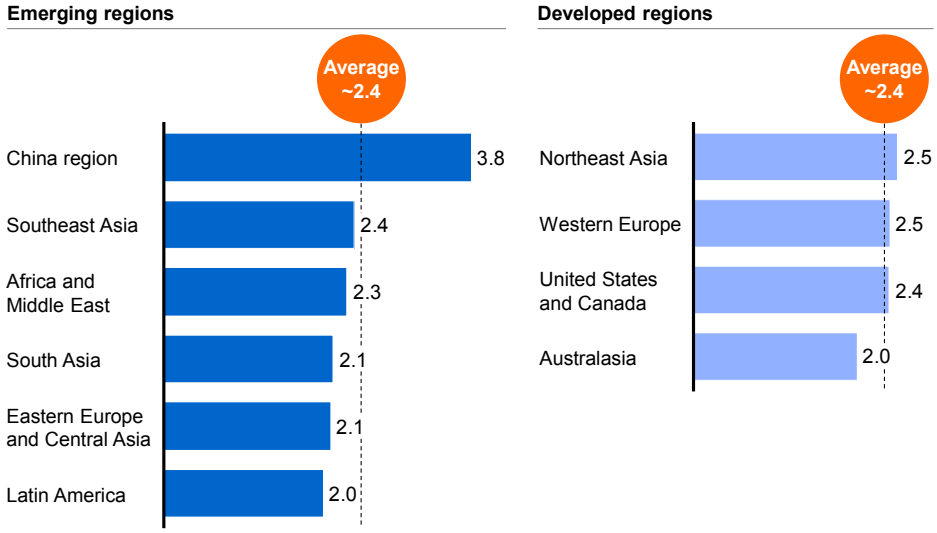
- **Lower industry consolidation.** One might expect that the size distribution of companies in emerging markets would explain their relatively low share of large companies. However, in analyzing the patterns revealed by the MGI CompanyScope database, we find no evidence that this is a major factor. In fact, the overall size distribution of large companies is not very different between developed and emerging regions, a finding that is consistent with past MGI work comparing company distributions across nations (Exhibit 4).[24] Mergers and acquisitions activity, along with the competitive dynamics by which more successful companies grow and less successful ones exit, has consolidated companies in advanced economies to a greater extent than in emerging regions. For example, the top 30 players in the Chinese retail grocery market accounted for 15 percent of industry revenue, compared with 62 percent in the United States; in the automotive industry, the ten leading players accounted for 93 percent of revenue in the United States but only 62 percent in China.[25] This factor propels more companies across the "large company" revenue threshold, and at the same time, their presence gives rise to supply chains and service firms. Overall, the size distribution of companies is remarkably similar across regions, but there are simply more companies of *all* sizes in developed economies.

Exhibit 4

The median size of large companies does not vary greatly between developed and emerging regions

Median size of large companies in different regions

Revenue, 2010 ($ billion)



SOURCE: MGI CompanyScope; McKinsey Global Institute analysis

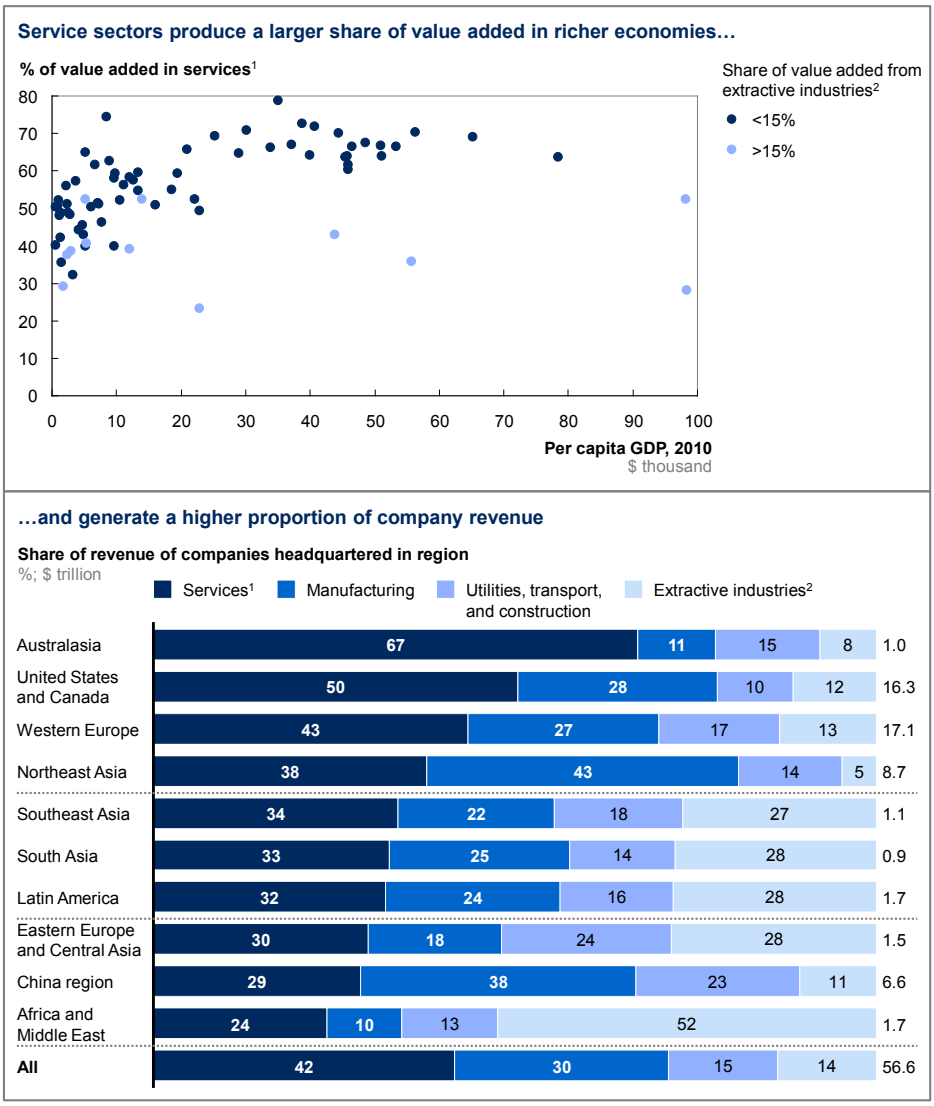
24 *Turkey: Making the productivity and growth breakthrough*, McKinsey Global Institute, February 2003.

25 Retail data: Euromonitor, China Chain, and Franchise Association; vehicle sales data, IHS Global Insight.

- **Less developed service sectors.** As a nation's income rises, its industry mix evolves, typically shifting from agriculture to a higher proportion of manufacturing and services in the middle-income stage. In particular, services grow continuously as a share of GDP as nations move along the income and economic development curve and add new dimensions to their economies.[26] Only 38 percent of GDP comes from services in countries with per capita GDP of less than $5,000, but that share averages 59 percent in countries with per capita GDP over $40,000 (Exhibit 5). This growth is reflected in the number of large service-sector companies—and as incomes rise, we expect the lion's share of all new companies formed will be in services.

Exhibit 5

Service sectors play a greater role in developed economies



1 Not including utilities, transport, and construction.
2 Extractive industries are defined as ISIC categories C (mining) and D23 (petroleum refining).
NOTE: Numbers may not sum due to rounding.
SOURCE: IHS Global Insight; MGI CompanyScope; McKinsey Global Institute analysis

26 *How to compete and grow: A sector guide to policy,* McKinsey Global Institute, March 2010.

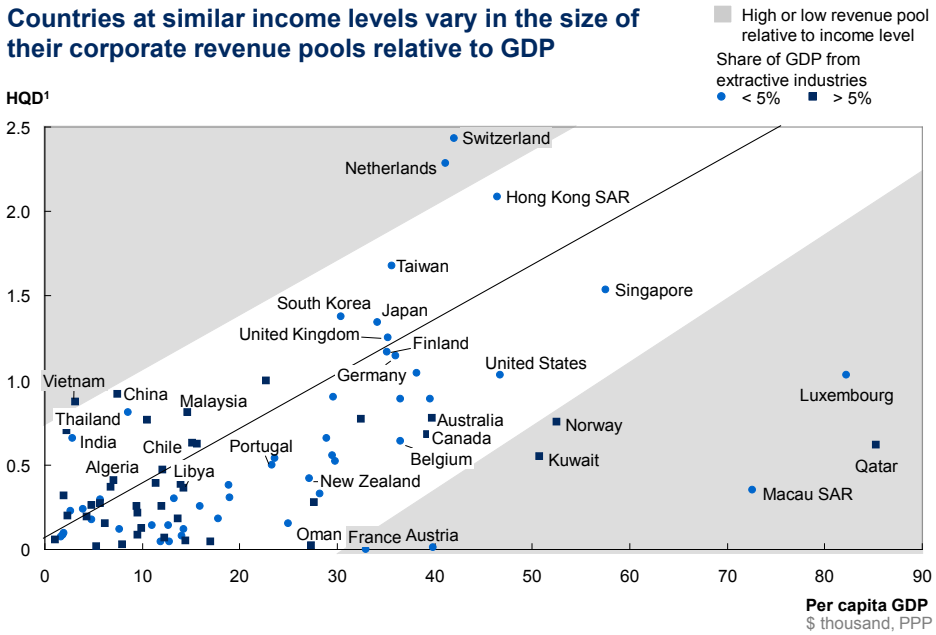
- **Limited foreign revenue**. Companies in emerging economies tend to have a lower share of foreign revenue than their counterparts in advanced economies. Looking exclusively at Fortune Global 500 companies, a pool more likely to have broader international reach, companies based in developed economies generate an average of 24 percent of total revenue outside their home region; for those based in emerging economies, the corresponding share is only 14 percent.[27] This is changing as companies such as India's automobile manufacturing giant Tata Group and Mexico's Cemex (one of the world's biggest producers of cement and building supplies) and Bimbo Group (the world's largest producer of bread and baked goods) expand into new markets abroad. Many other companies based in emerging regions are in only the beginning stages of branching out and expanding their global footprint.

Major differences exist in the prevalence of large companies in individual economies

Despite the broad patterns that hold true for developed vs. emerging economies, individual economies vary widely in the degree of dominance by large companies (see Box 1, "From globalization to global growth"). To highlight these differences and examine the factors behind them, we analyzed the ratio of the consolidated global revenue of all large companies within a given economy to its GDP. The result is the MGI Headquarters Density, or HQD, index (Exhibit 6).[28]

Exhibit 6

Countries at similar income levels vary in the size of their corporate revenue pools relative to GDP



1 The Headquarters Density (HQD) index is defined as the ratio of global consolidated revenue of all companies with total revenue of $1 billion or more that are headquartered in a given country to that country's GDP in 2010.

SOURCE: MGI CompanyScope; McKinsey Global Institute analysis

27 The pool of companies with sufficient data to include in the analysis consists of 56 emerging region companies and 374 companies from developed regions. This difference represents only the largest companies and is likely to underestimate the gap given the presence of a larger pool of global energy and resource companies in the emerging regions, which typically have a higher proportion of revenue from overseas than other companies.

28 See the technical appendix for details of how we compiled the index.

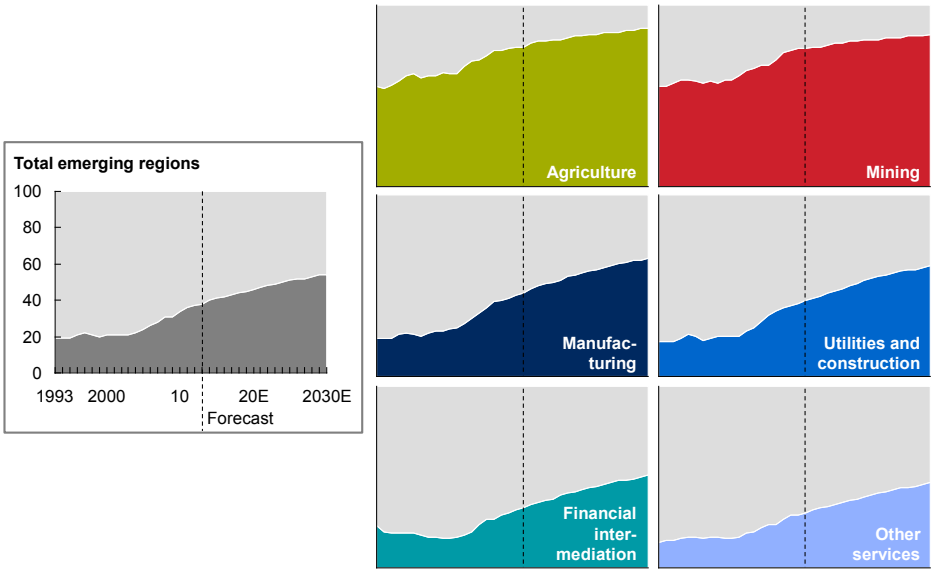
Box 1. From globalization to global growth

In the midst of the Great Recession, the global economy crossed an important threshold: in 2009, emerging regions began to generate more than half of global GDP growth. This pattern has continued throughout the recovery and, looking beyond short-term fluctuations, is likely to persist for years to come. Yet the transition is at different stages and following different patterns across industries. In agriculture and mining, emerging regions already command a large majority of global value added, while the balance is in the midst of shifting in manufacturing and in utilities and construction (Exhibit 7).

Exhibit 7

Emerging regions produce a growing share of global value added, but with variation across sectors

Proportion of sector value added in emerging regions



SOURCE: IHS Global Insight; McKinsey Global Institute analysis

Companies will be central actors shaping this economic transformation, just as they were during the Second Industrial Revolution, which ushered in an era of expanding global capital mobility that extended roughly from 1860 to 1915.[29] Heavy European cross-border investment in colonies and former colonies fueled industrialization and urbanization in nations such as the United States, Canada, Australia, and Argentina—the emerging regions of that era. Established European companies were among the early investors, and local companies soon arose to take advantage of the economic opportunities. This era gave birth to names such as Australian mining giant BHP, which started to export to China in the 1890s, as well as US firms including Coca-Cola, Johnson & Johnson, and AT&T.

As in this earlier period, the past two decades have seen sharply increased trade and capital flows supporting long-term economic growth in new parts of the globe—and as the world continues to recover from the global recession, trade volumes are once again on the rise.[30] While flows of foreign direct investment (FDI) to developed regions have fallen since 2010, flows both to and from emerging regions have risen. In 2012, emerging countries accounted for more FDI inflows than developed countries for the first time in history, with 52 percent of the global total. Emerging regions were also responsible for a higher share of FDI outflows than ever before at 31 percent in 2012, illustrating the continued expansion abroad of multinationals based in developing regions.[31] China and other emerging economies with high savings rates have the capital to fuel growth in the years ahead, although China's savings rate may decline as the population ages and the economy shifts toward consumption, and emerging-economy markets and financial institutions will need to deepen and mature.[32] The convergence of these trends is setting the stage for companies from emerging economies to take root and rise to prominence, repeating the cycle of history from more than 100 years ago.

29 *Financial globalization: Retreat or reset?* McKinsey Global Institute, March 2013.

30 International trade statistics, World Trade Organization, 2012.

31 *World investment report 2013*, United Nations Conference on Trade and Development (UNCTAD), 2013.

32 *Farewell to cheap capital? The implications of long-term shifts in global investment and saving*, McKinsey Global Institute, December 2010.

The HQD index confirms the concentration of large companies in developed regions. The total global revenue of large companies based in emerging regions equals 60 percent of their GDP, compared with 108 percent in developed regions. In other words, global revenue relative to GDP in developed regions is close to double that in emerging regions.

But individual countries with similar income levels vary widely in their HQD. Some advanced economies such as Switzerland, Hong Kong, the Netherlands, Taiwan, and South Korea have high HQD index values; they are home to the headquarters of highly globalized corporations that consolidate large foreign revenue relative to the size of the economy in which they are located. Meanwhile, some of the richest countries, such as Qatar, Norway, and Kuwait, have much lower headquarter revenue relative to their GDP.

Given that the prevalence of large companies is not fully explained by the stage of economic development and income, we find that three other factors play an important role in determining the HQD score:[33]

1. **Ease and cost of doing business**. Countries with strong reputations as good places to do business attract more large business revenue (see Box 2, "Multiple pathways to building a strong base of large companies"). Corporate taxes play a role in this equation, but they are only one of many elements. Our analysis shows that the World Bank's Ease of Doing Business index correlates with HQD rankings, even once per capita GDP has been taken into account. This index includes factors such as the number of procedures, time, fees, and minimum capital investment required to start a business, as well as the tax level and associated administrative burden facing medium-sized companies.[34] Among countries with the same per capita GDP, a country ranked 30th in the world on the World Bank's index would typically have an HQD reading 0.05 higher than a country ranked 40th. Among the high HQD nations, Switzerland, the Netherlands, and Hong Kong have all put in place explicit economic development strategies designed to cultivate global companies.

2. **High share of extractive industries.** Countries with a particularly high concentration of oil and mining industries, including those in the Middle East as well as Australia and Canada, tend to have a lower overall HQD. On average, a country's HQD score is 0.14 lower for every 10 percent increase in the share of GDP generated from extractive industries. This is potentially a consequence of the "Dutch disease" or the "resource curse" effect, in which large resource export revenue may strengthen a country's currency, increase the local cost base, and siphon a disproportionate share of local talent into the resource sector, thereby reducing the competitiveness of its other industries and making it harder for large companies to develop in other sectors. For example, the only large companies in Angola and Libya are oil companies and a related state investment agency in Libya. In Saudi Arabia, 72 percent of revenue of large companies overall is generated in extractive industries. Even in advanced and wealthy economies, a large resource sector is associated with fewer large companies relative to per capita GDP in other sectors. In Norway, for example, 31 percent of large company revenue is from extractive

33 In contrast, our analysis also revealed that overall GDP size, population, and educational attainment do not significantly explain differences in HQD between countries after controlling for per capita GDP.

34 Full details on the Ease of Doing Business index are available at www.doingbusiness.org.

industries and HQD is 0.76, far lower than in most countries with such a high per capita GDP.

3. **Openness to foreign competition.** There is evidence that the entry of foreign subsidiaries of established multinational corporations can limit the growth of local competitors, particularly when those subsidiaries consolidate a first mover's advantage in emerging economies. In Latin America, high import barriers in the second half of the 20th century encouraged local production by multinationals, which contributed to the entry of foreign subsidiaries. The region continues to host a relatively large number of foreign subsidiaries, while there are fewer locally based large companies than would be expected given the size of the region's economies.[35] We can observe a similar pattern in the case of Southeast Asia—including Singapore—which has only 3 percent of the world's global headquarters and only 2 percent of global large company revenue, but 9 percent of the world's foreign subsidiaries and their revenue.[36] In contrast, Japan and South Korea both used to pursue development strategies that limited the entry of foreign subsidiaries while actively supporting the growth of domestic companies.[37] China, too, has limited the activities of foreign companies, while proactively supporting the development of domestic companies.[38] As a result, these nations have relatively high HQDs but few large foreign subsidiaries compared with their share of global GDP. Large local companies may face greater competitive hurdles in markets that are open to established foreign subsidiaries.

35 Latin America generates 8 percent of global GDP, but its companies account for only 3 percent of global large company revenue. Latin America is home to only 4 percent of the world's global headquarters and 3 percent of headquarter revenue. However, the region is home to 11 percent of foreign subsidiaries, generating 9 percent of worldwide subsidiaries' revenue. See Chapter 3 for more on foreign subsidiaries across regions.

36 This heavy weight of subsidiaries is largely due to Singapore, which has become Asia's leading hub for subsidiaries. However, with the exception of Vietnam, each country in Southeast Asia has a higher share of global subsidiaries than global headquarters.

37 These strategies include preferential financing and the protection of fledgling sectors in the case of some industries perceived to be of strategic importance. See, for example, *The East Asian miracle: Economic growth and public policy,* World Bank, Oxford University Press, 1993; and Ulrike Schaede, "What happened to the Japanese model?" *Review of International Economics,* volume 12, issue 2, May 2004.

38 For example, China makes technology transfer a requirement of procurement for government contracts such as the Three Gorges Dam and through joint ventures to permit market access. See Peter J. Williamson and Ming Zeng, "Chinese multinationals: Emerging through new global gateways," in *Emerging multinationals in emerging markets,* Ravi Ramamurti and Jitendra Singh, eds., Cambridge University Press, 2009.

□ □ □

The rise of the modern corporation has been perhaps the defining trend of the past 150 years. This model is now a major building block of the global economy, fueling a significant share of growth, job creation, and technological innovation. Together with state-owned and privately held companies, these giants not only influence the performance of their national economies but also exert ripple effects that are felt around the globe—and in countless aspects of our daily lives. Tracking the movement and concentration of the world's largest companies provides insight into where the economy is headed. In developed and emerging regions alike, the locations that focus on building a competitive and efficient business environment will be well positioned to capitalize on the next phase of company growth. In the next chapter, we turn to a discussion of how the company landscape meets the urban world.

Box 2. Multiple pathways to building a strong base of large companies

The Headquarters Density (HQD) index, or the ratio of the consolidated global revenue of all large companies within a given economy to that nation's GDP, is an indicator of a country's success in building large global companies as well as retaining or attracting their headquarters. Switzerland has the highest HQD, at 2.4: this means that the global consolidated revenue of large companies based in Switzerland is 240 percent of the nation's GDP (Exhibit 8).

Exhibit 8

HQD provides a way of comparing success in building an attractive environment for large companies

Top 20 countries by HQD, 2010[1]

Emerging regions

		HQD	Number of large companies	Global revenue $ billion
1	Switzerland	2.4	131	1,284
2	Netherlands	2.3	115	1,786
3	**Hong Kong SAR**	**2.1**	**96**	**468**
4	**Taiwan**	**1.7**	**140**	**721**
5	**Singapore**	**1.5**	**64**	**343**
6	South Korea	1.4	151	1,398
7	Japan	1.3	1,028	7,347
8	United Kingdom	1.3	360	2,821
9	Finland	1.2	55	280
10	Germany	1.1	466	3,763
11	Sweden	1.0	107	479
12	United States	1.0	2,102	15,159
13	Luxembourg	1.0	12	57
14	**Saudi Arabia**	**1.0**	**28**	**447**
15	**China**	**0.9**	**577**	**5,449**
16	**Israel**	**0.9**	**51**	**196**
17	Denmark	0.9	50	277
18	Ireland	0.9	34	185
19	**Vietnam**	**0.9**	**20**	**90**
20	**Malaysia**	**0.8**	**40**	**193**
	Other	0.4	2,314	13,872
	Total	**0.9**	**7,941**	**56,613**

1 The Headquarters Density (HQD) index is defined as the ratio of global revenue of all companies with total revenue of $1 billion or more that are headquartered in a given country to that country's GDP in 2010. Includes only countries with more than ten large company headquarters.

SOURCE: MGI CompanyScope; McKinsey Global Institute analysis

While the countries scoring high on the HQD index have reputations as good places to do business, they do not share a single policy regime or a uniform approach to attracting large companies. To take two historical examples, South Korea focused on industrial development policy to encourage the growth of export-driven local champions, while the Netherlands placed greater emphasis on attracting multinational headquarters (and the same attributes that attract foreign firms simultaneously benefit local companies).

Starting in the 1960s, South Korea supported the growth of large domestic export companies through allocating foreign currency (until the liberalization of currency controls), arranging low-cost loans, and providing generous tax incentives. At the same time, foreign investment was tightly controlled—sought out in some industries and shut out in others, according to the national development plan. Where the entry of foreign players was permitted, the government encouraged

joint ventures under local ownership. As a result, in the mid-1980s, 5 percent of multinational corporations' subsidiaries in South Korea were wholly owned, compared with 50 percent in Mexico and 60 percent in Brazil.[39] The government also proactively supported local companies in a drive to increase their exports and to progressively shift to higher-value-added activities (for example, through an export targeting system that gave tax relief and subsidized loans to successful exporters and through coordinated R&D investment). Most of the large South Korean companies are owned by families, who typically take a longer-term view of growth and investment. South Korean companies now prosper in foreign markets as exporters of products ranging from LCD screens, memory chips, and mobile devices to cars and ships; the overseas sales of the ten largest companies grew at an average annual rate of 15 percent from 2000 to 2011.[40]

The Netherlands, by contrast, boosted its large company presence through policies seeking to attract international businesses, including both corporate headquarters and regional headquarters (Starbucks and Cisco both have more than 1,000 employees in the Netherlands, for example). In addition to offering low corporate tax rates, the government provides certainty on future tax positions through advanced tax rulings and attracts foreign talent by providing tax relief to expatriates in their first eight years living in the country. The Netherlands' tax treaty network is the most extensive of any European Union member state, and consistently strong rankings on the World Economic Forum's 111 indicators of competitiveness indicate that the appeal of the Netherlands as a headquarters location is broad-based rather than simply tax-driven.[41] The NFIA (National Foreign Investment Agency) was set up in 1978 to attract regional headquarters to the Netherlands and now has three offices in Europe, five in the United States, 11 in Asia, two in the Middle East, and one in South America. In 2000, the Dutch Advisory Board on Regulatory Burden was established to advise the government on how to minimize red tape, and an advisory board of foreign CEOs counsels companies considering investing in the Netherlands.[42]

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39 Ha-Joon Chang, *Bad samaritans: The myth of free trade and the secret history of capitalism*, Bloomsbury Press, 2008. For more on this topic, see also Ha-Joon Chang, "Regulation of foreign investment in historical perspective," *European Journal of Development Research*, volume 16, number 3, Autumn 2004, and Alice Amsden, *The rise of "the rest": Challenges to the West from late-industrializing economies*, Oxford University Press, 2001.

40 *Beyond Korean style: Shaping a new growth formula*, McKinsey Global Institute, April 2013. For a summary of South Korea's development story and current challenges, see Sung-Young Kim, "The rise of East Asia's global companies," *Global Policy,* volume 4, issue 2, May 2013. For additional details of the role of government in supporting export growth and movement into higher-value-added activities, see also Hyeon-Ju Ahn and Jai S. Mah, "Development of technology-intensive industries in Korea," *Journal of Contemporary Asia,* volume 37, issue 3, 2007; John Weiss, *Export growth and industrial policy: Lessons learned from the East Asian miracle experience,* ADB Institute discussion paper number 26, 2005; Marcus Noland and Howard Pack, *The East Asian industrial policy experience: Implications for the Middle East,* Institute for International Economics working paper number 05–14, December 2005; Howard Pack and Kamal Saggi, *The case for industrial policy: A critical survey,* World Bank policy research working paper 3839, February 2006.

41 *Global competitiveness report 2012–13,* World Economic Forum, 2012.

42 "Better regulations in the Netherlands," OECD, www.oecd.org/netherlands/43307757.pdf; and "Why invest in Holland?" Netherlands Foreign Investment Agency (NIFA), www.nfia.nl/images/shared/downloads/WiH_fiscal_23April2013.pdf.

2. The largest global companies are clustered in a small number of cities

Despite significant regional differences, major companies are extraordinarily concentrated in a small number of cities—in fact, only one-third of the world's major cities can claim a large company headquarters.[43]

The contours of the company landscape vary sharply by industry. Service firms, for example, cluster around other large businesses that represent their potential customer or client base. The same ten cities with the greatest number of service company head offices are also the ten cities with most headquarters overall, with Tokyo, New York, and London at the top of the list. In contrast, only four of the ten cities with the greatest number of company headquarters in extractive industries rank among the top ten cities for headquarters in all industries.

As new companies and business clusters rise, companies will have to monitor this evolving geography in order to stay abreast of global competition. Companies with business customers will need this information to reposition sales networks. Mayors and other city leaders in turn can use this information to refine their economic development strategies. Cities in both the developed and emerging worlds may find that it pays to focus their efforts on attracting foreign subsidiaries as thousands of global companies, both old and new, expand into new markets in the coming decade (see Chapter 4 for more on these implications.)

In this chapter, we explore a detailed picture of today's global business landscape at the city level by mapping the new MGI CompanyScope database to our Cityscope database. While headquarters represent only a slice of overall corporate activity, information on their location offers insight into the ecosystem that informs the perspective of senior management; knowing where a company is based can offer some clues to corporate behavior. The share of state- or family-owned businesses can change the objectives and time horizons for businesses, while local norms regarding everything from working hours to collaboration often shape how companies operate.

Large company headquarters are concentrated in a small number of major cities

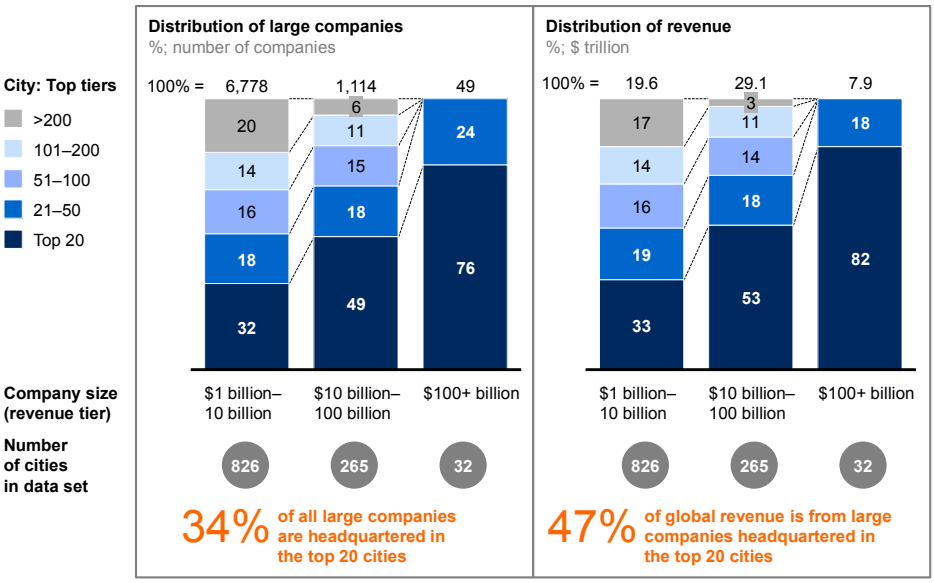
Of the 2,600 cities in MGI's Cityscope database, only 850 are home to the headquarters of large companies (Exhibit 9). In fact, just 20 major cities host one-third of all large companies globally—and the firms clustered in these top business hubs generate more than 40 percent of the combined revenue of all large companies. By contrast, these 20 cities generate only 16 percent of global GDP.

43 We define "major cities" as those with populations exceeding 150,000 in developed regions or exceeding 200,000 in emerging regions.

Exhibit 9

One-third of large companies are headquartered in only 20 cities

Distribution of large companies and their global revenue by headquarters city



NOTE: Numbers may not sum due to rounding.
SOURCE: MGI CompanyScope; McKinsey Global Institute analysis

Twenty of the 25 cities with the greatest number of large company head offices are in developed regions—and Tokyo is by far the leading hub, with more than 600. Japan's capital city generates around one-third of the nation's GDP but hosts almost 60 percent of its large companies. Only nine other global cities are home to 100 or more large company head offices (Exhibit 10). Beijing is the highest-ranking emerging-market city; it ranks sixth for the total number of global headquarters, with 116. Strikingly, Beijing ranks third globally by the pool of consolidated revenue of companies based in the city, above both New York and London (see also Box 3, "Beijing: China's capital for business").

The world's 27 megacities (those with more than ten million inhabitants) are home to 28 percent of large companies and more than one-third of their consolidated revenue. Of these megacities, only Dhaka, Bangladesh, has no headquarters of a company with revenue exceeding $1 billion.

Despite this concentration, the majority of the world's largest companies are based in cities with populations under five million (Exhibit 11). For example, Walmart's hometown of Bentonville is located in the metro area of Fayetteville, Arkansas, which has a population of only 470,000. Despite its small size, that same metro area is also home to another member of the Fortune Global 500, Tyson Foods. Italian insurance giant Assicurazioni Generali is based in Trieste, which has a population of only 205,000, and manufacturing and trading conglomerate Koch Industries is headquartered in Wichita, Kansas, which has a population of 625,000. This reflects the fact that in some industries, clustering with customers, suppliers, or other companies in the same industry is important, but in others, it matters less.

Exhibit 10

Emerging regions are home to only five of the top 25 cities with the most large company global headquarters

Top cities ranked by number of large companies

Emerging regions

		Number of large companies	Total revenue, $ billion	Average revenue per large company, $ billion
1	Tokyo	613	5,231	8.5
2	New York	217	1,964	9.0
3	London	193	1,924	10.0
4	Osaka	174	1,028	5.9
5	Paris	168	2,785	16.6
6	**Beijing**	**116**	**2,503**	**21.6**
7	**Moscow**	**115**	**709**	**6.2**
8	Seoul	114	1,150	10.1
9	Rhein-Ruhr	107	1,220	11.4
10	Chicago	105	695	6.6
11	**Hong Kong SAR**	**96**	**468**	**4.9**
12	**Taipei**	**90**	**472**	**5.2**
13	Los Angeles	82	422	5.1
14	Zurich	79	770	9.8
15	Sydney	75	466	6.2
16	Stockholm	74	360	4.9
17	Houston	74	661	8.9
18	Nagoya	70	481	6.9
19	Randstad	67	1,516	22.6
20	**Singapore**	**64**	**343**	**5.4**
21	Dallas	63	804	12.8
22	Washington, DC	62	655	10.6
23	Toronto	61	436	7.2
24	Munich	61	581	9.5
25	Melbourne	58	289	5.0

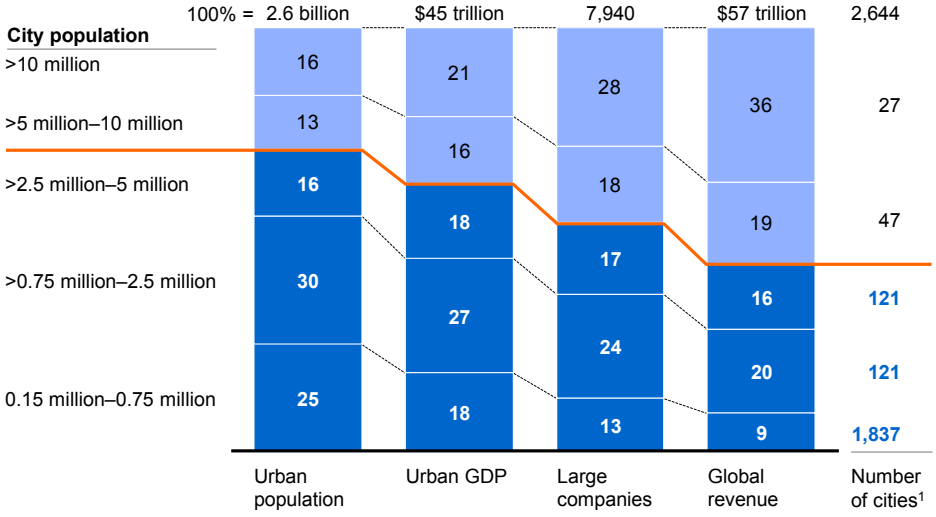
SOURCE: MGI CompanyScope; McKinsey Global Institute analysis

Exhibit 11

More than half of all large companies are located in cities with populations of less than five million

Distribution of urban population, GDP, and large companies by cities of different sizes

%



1 Includes 853 cities that host a large company global headquarters.
NOTE: Numbers may not sum due to rounding.
SOURCE: MGI CompanyScope; McKinsey Global Institute analysis

Box 3. Beijing: China's capital for business

Three of the six top business hubs in emerging economies, as measured by the total number of large company headquarters, are in the China region. However, Beijing stands apart as home to companies that generate 46 percent of the nation's large company revenue. Across all emerging economies, only Moscow comes close to Beijing in the sheer number of headquarters, but its companies are much smaller in terms of revenue.

Given the common perception that Shanghai is China's commercial hub, it may come as a surprise to learn that Beijing has more than twice as many large company headquarters. Beijing's economic clout derives from its 105 large SOEs. In fact, the Chinese capital is home to only five large public and six large private companies that are not state-owned. Only one of the largest 40 companies in the Chinese capital is not state-owned (Exhibit 12). The three biggest powerhouses are Sinopec, China National Petroleum, and the largest utility company in the world, the State Grid Corporation of China. Some of the SOEs—including China Construction Bank and the Industrial and Commercial Bank of China—also have a growing international presence. In addition, China Railway Construction and China State Construction Engineering Corporation have both completed high-profile projects around the globe. Not all Beijing-based SOEs are mega-businesses, however; 13 of them have revenue between $1 billion and $2 billion.

Although Beijing dominates China in terms of the sheer number of company headquarters, that does not hold true across all types of companies and sectors. In retail, for instance, Shanghai has nine large company headquarters with combined revenue of almost $70 billion, including hypermarket and department store operator Bailian Group and hypermarket chain Sun Art Retail Group. By comparison, Beijing is home to six retail headquarters that generate total revenue of $16 billion. Hong Kong, Shanghai, and Shenzhen are each home to more public companies than Beijing—and Shanghai and Hong Kong have a long-standing rivalry as the region's leading financial hubs.

Exhibit 12

Of the 40 leading companies in Beijing, 39 are state-controlled

Largest companies with global headquarters in Beijing, by 2010 revenue

$ billion

State-controlled
Private
China Petroleum & Chemical (Sinopec) 290
China National Petroleum 240
State Grid Corporation of China 226
Industrial & Commercial Bank of China 82
China Railway Group 70
China Construction Bank 68
China Railway Construction 67
China Mobile Communications 66
Agricultural Bank of China 62
Bank of China 60
China Life Insurance Co. Ltd 59
China State Construction Engineering 55
China National Offshore Oil 52
Sinochem 50
China Communications Construction 40
Citic Group 39
China South Industries Group 38
China Minmetals 38
China North Industries Group 36
China Development Bank 35
China Huaneng Group 34
China Telecom Corporation 33
People's Insurance of China 33
Shenhua Group 32
China Metallurgical 32
Beijing Automotive Industry Holding Co., Ltd. 31
Shougang Group 29
Aluminum Corporation of China 29
Legend Holdings Limited 28
Power Construction Corporation of China 28
Power China 28
China Post Group 28
China Resources National 27
Sinosteel 27
COFCO 26
China Datang Group 26
China Huadian 25
China Ocean Shipping 24
China Guodian 24
China Electronics 24

SOURCE: MGI CompanyScope; McKinsey Global Institute analysis

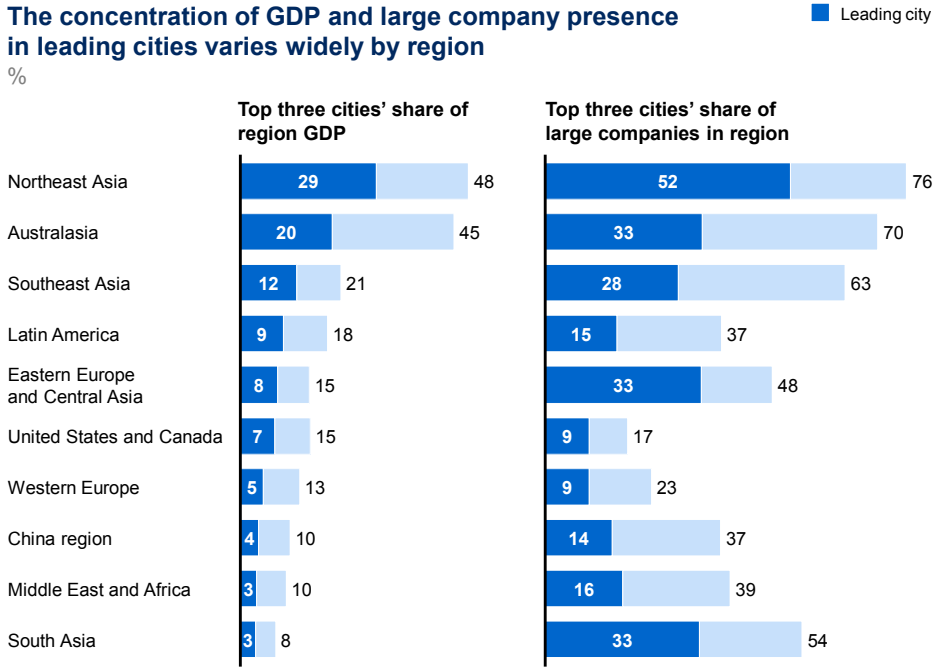
Some regions have dominant business hubs, while others have a more dispersed company landscape

The clustering of company headquarters does not simply reflect the patterns of where economic activity takes place. By looking at the share of national GDP produced by leading cities and comparing it with their share of total large company revenue, we can see varying regional patterns of concentration (Exhibit 13). These differing patterns indicate how concentrated corporate decision making is in different regions; it can also inform the geographical sales footprint of businesses whose customers or clients are senior managers in head offices.

Exhibit 13

The concentration of GDP and large company presence in leading cities varies widely by region

%


Leading city
Top three cities' share of region GDP
Top three cities' share of large companies in region
Northeast Asia 29 48 52 76
Australasia 20 45 33 70
Southeast Asia 12 21 28 63
Latin America 9 18 15 37
Eastern Europe and Central Asia 8 15 33 48
United States and Canada 7 15 9 17
Western Europe 5 13 9 23
China region 4 10 14 37
Middle East and Africa 3 10 16 39
South Asia 3 8 33 54

SOURCE: MGI CompanyScope; McKinsey Global Institute analysis

Take Northeast Asia as an example. The top three cities in Japan and South Korea (Tokyo, Osaka, and Seoul) produce 48 percent of the region's GDP but are home to 76 percent of its large companies, the highest concentration among all regions. The companies in these three cities generate 85 percent of the consolidated revenue of all companies based in Japan and South Korea. This level of concentration is likely a holdover from the close public-private collaboration that characterized early industrial policy; these are national or regional capitals, and large companies tended to locate where political and business decisions were made.[44]

44 See, for example, World Bank, *The East Asian miracle: Economic growth and public policy,* Oxford University Press, 1993; Ulrike Schaede, "What happened to the Japanese model?" *Review of International Economics*, volume 12, issue 2, May 2004; and *Beyond Korean style: Shaping a new growth formula*, McKinsey Global Institute, April 2013.

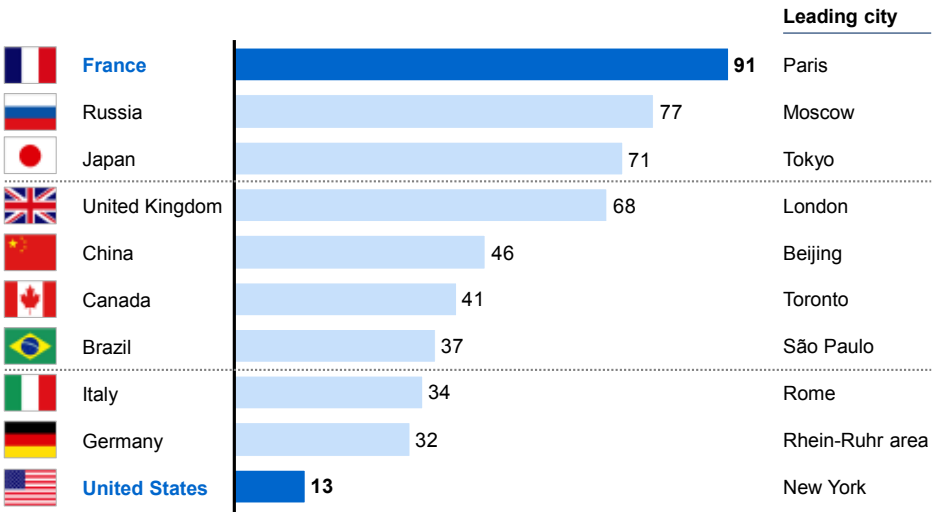
The United States, by contrast, has a much wider distribution of large company headquarters, reflecting the greater specialization of industry-specific "clusters" across the nation. New York has the most large companies overall, but San Jose (Silicon Valley's primary hub) is the dominant location for high tech, Houston for oil and gas, Chicago for wholesale, Los Angeles for construction and entertainment, and Detroit for the auto industry.[45]

In Western Europe, the megacities of Paris, London, and the Rhein-Ruhr metropolitan area contain 23 percent of the region's large companies and account for more than one-third of their consolidated revenue. But the level of the concentration varies widely across different national economies (Exhibit 14). In France, Paris-based companies generate over 90 percent of all the consolidated revenue of French companies, while the top city's share is roughly one-third in both Italy and Germany (see Box 4, "Germany's *Mittelstand* and middleweight cities").

Exhibit 14

Paris dominates the French business landscape, while companies are dispersed across many cities in the United States

Proportion of global revenue accounted for by companies in the top city in the ten largest economies, 2010



SOURCE: MGI CompanyScope; McKinsey Global Institute analysis

45 *Urban America: US cities in the global economy,* McKinsey Global Institute, April 2012. See also Emilia Istrate and Nicholas Marchio, *Export nation 2012: How US metropolitan areas are driving national growth,* Metropolitan Policy Program at Brookings, March 2012; and Mark Muro and Bruce Katz, *The new "cluster moment": How regional innovation clusters can foster the next economy,* Metropolitan Policy Program at Brookings, September 2010, which describe the industry-specific clusters that are a strength of the US economy.

Box 4. Germany's *Mittelstand* and middleweight cities

While the corporate landscape in France and the United Kingdom is heavily dominated by each nation's respective capital city, Germany, by contrast, has six metropolitan regions (Rhein-Ruhr, Munich, Rhein-Main, Stuttgart, Hamburg, and Rhein-Neckar) with more than 30 large headquarters. In France, only Paris falls into this group, and no other city has ten or more headquarters. In Germany, ten cities are home to ten or more large companies.

This contrast is evident even among the location choices made by the corporate giants with revenue of $50 billion or more. In France, all of the nine largest companies are headquartered in Paris, and in the United Kingdom, eight of the largest ten companies are based in London. But the four largest German companies—Volkswagen, Allianz, Daimler, and E.ON—are all based in different cities.

Germany's famous *Mittelstand* (an umbrella term for Germany's small and medium-sized companies), however, are often based in small towns rather than cities and may dominate a particular niche.[46] Many of these firms are innovative, export-oriented manufacturers, including 81 firms of all sizes in electrical and vehicle manufacturing (compared with 30 in France and 27 in the United Kingdom). They are also much more likely to be private: 77 percent of companies with revenue over $1 billion are privately owned, compared with 45 percent in both France and the United Kingdom. A number of private German companies in the database with revenue of between $1 billion and $5 billion are global leaders in a particular niche. For example, Schmitz Cargobull is a family-owned firm in Horstmar, a town of fewer than 10,000 people. Although its revenue is less than $2 billion, the company is a leading producer of trailers and has pioneered the use of cargo tracking systems.[47] Based in the small town of Winnenden, near Stuttgart, Kärcher is a family-owned commercial cleaning manufacturer with a highly international footprint.

46 See, for example, Bernd Venohr and Klaus E. Meyer, *The German miracle keeps running: How Germany's hidden champions stay ahead in the global economy*, Institute of Management, Berlin School of Economics working paper number 30, 2007.

47 Unternehmertum Deutschland, a joint initiative of McKinsey and the chair in Small Business & Entrepreneurship (LEMEX) at the University of Bremen (www.unternehmertum-deutschland.de/html/site/home.php).

In spite of the dominance of Beijing, many cities are emerging as company hubs in China. In fact, China's company headquarters distribution resembles that of the United States more closely than that of either Japan or South Korea. A number of medium-sized cities in China are home to vibrant company clusters where a concentration of talent and services is becoming self-reinforcing. For example, Hangzhou in eastern China has 22 headquarters of large companies across a diverse range of sectors; among them are the headquarters of the pharmaceutical company Huadong Medicine and the manufacturing company Hangzhou Steam Turbine. Shenzhen is a larger hub that is growing rapidly and is home to a diverse spectrum of large companies including Huawei Technologies, the world's largest telecom-equipment manufacturer; smartphone manufacturer ZTE Corporation; and Ping An, China's largest non-state controlled insurance company. This relatively wide distribution of large company headquarters appears to reflect China's rapid, broad-based urbanization.

Concentration tends to be the norm in other emerging regions. In South Asia, the top three cities contribute just 6 percent of regional GDP but are home to companies that generate 80 percent of the region's company revenue. Mumbai stands out with 57 of South Asia's 175 large company headquarters; Delhi and Bangalore trail with 27 and 11, respectively.

In Southeast Asia, capital cities dominate. Among them, Singapore, Bangkok, Kuala Lumpur, Jakarta, Hanoi, and Manila host almost 90 percent of large companies in the region. Of these, Singapore (with 64 headquarters) and Bangkok (with 45) are the leading hubs.

In Latin America, companies headquartered in Mexico City have the highest revenue. The largest Mexican companies, such as state-owned petroleum company Pemex and telecommunications giant América Móvil, are located in Mexico City. However, São Paulo has the most large companies in the region, with 49. Among the region's medium-sized cities, Monterrey, Mexico, stands out with 13 headquarters, including those of Cemex, a global leader in cement and building supplies, and four other large firms in manufacturing metals and basic materials.

In sub-Saharan Africa, Johannesburg and Cape Town are the leading business hubs, with 60 percent of the region's headquarters between them. Just ten cities outside South Africa are home to a large head office. Lagos has seven large company headquarters, but Nigeria's capital, Abuja, accounts for greater revenue because it is home to the Nigerian National Petroleum Corporation (see Box 5, "Sub-Saharan Africa's large company landscape"). In the Middle East and North Africa, two of the four top cities for hosting large companies—Dammam, in Saudi Arabia, and Tehran—are hubs for the oil industry, while the other two (Tel Aviv and Dubai) have a more diversified base.

Box 5. Sub-Saharan Africa's large company landscape

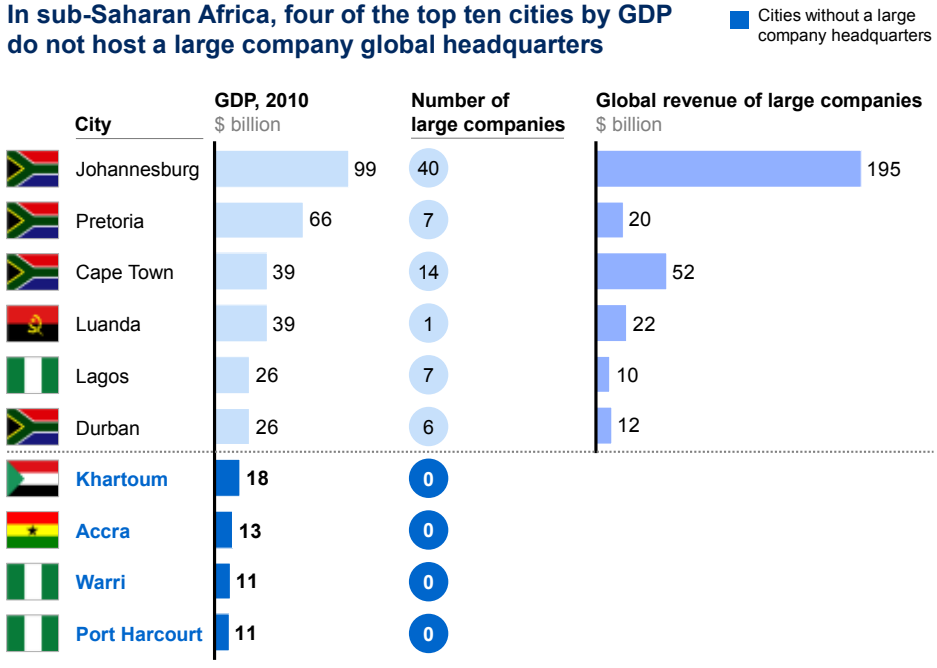
MGI's Cityscope database includes 213 large African cities that together generate around $0.9 trillion in GDP, or more than half of the region's total. By 2025, MGI anticipates that the GDP of these cities will increase to $2.3 trillion, reflecting rapidly rising urban populations and per capita income.

The MGI CompanyScope database identifies 14 sub-Saharan cities that host large company headquarters whose annual revenue is at least $1 billion. But the number of headquarters is not yet proportionate to GDP. More than 90 percent of cities with GDP exceeding $9 billion in Western Europe can lay claim to a large headquarters, but this is not the case in Africa where only one in eight cities does.

South Africa is the only country that bucks this trend; it is home to names ranging from energy and chemicals company Sasol to the Bidvest Group distribution and food-services company. During the apartheid years, South Africa was isolated from the international community, and few multinationals established large subsidiaries there. In their absence, local companies grew without foreign competition. Today, Johannesburg, Pretoria, Cape Town, and Durban are among the continent's leading cities for large companies. Still, four of the top ten African cities by GDP (Khartoum, Sudan; Accra, Ghana; and Port Harcourt and Warri, Nigeria) host no large headquarters at all (Exhibit 15).

Exhibit 15

In sub-Saharan Africa, four of the top ten cities by GDP do not host a large company global headquarters


Cities without a large company headquarters
City
GDP, 2010 $ billion
Number of large companies
Global revenue of large companies $ billion
Johannesburg 99 40 195
Pretoria 66 7 20
Cape Town 39 14 52
Luanda 39 1 22
Lagos 26 7 10
Durban 26 6 12
Khartoum 18 0
Accra 13 0
Warri 11 0
Port Harcourt 11 0

SOURCE: MGI CompanyScope; McKinsey Global Institute analysis

The company landscape varies by sector

Industries vary in both the weight of large companies and the patterns of geographic distribution of their head offices. This reflects differences in the nature of their business. Extractive industries depend on access to natural resources, for example, while many manufacturers tend to cluster with companies in the same industry. Business service companies follow their customer base, while health care and real estate companies tend to be more local and therefore more widely dispersed.

EXTRACTIVE INDUSTRIES

Extractive industry companies are headquartered in a large number of cities across the globe. They are also the least geographically correlated with the locations of headquarters in other industries. The leading hub for oil and gas, Houston, is home to 37 companies in this industry with revenue exceeding $1 billion—more than the next two cities combined (Calgary, with 20, and Tokyo, with 16).

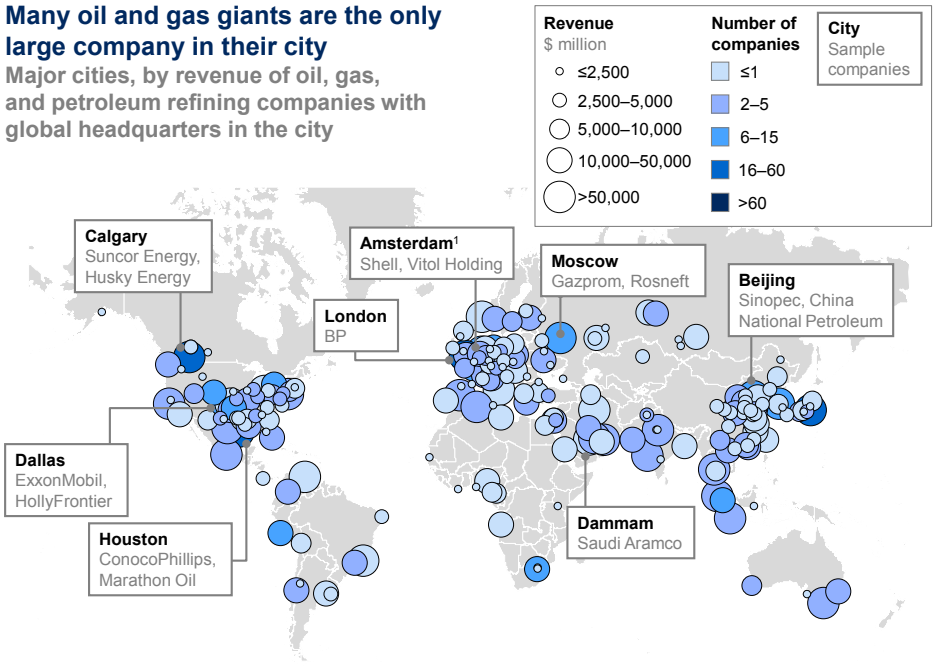
Companies in extractive industries form three very different types of city clusters. Houston, Calgary, and Tulsa, Oklahoma, for instance, are highly specialized hubs in resource-rich areas; while they are home to multiple large energy companies, they have relatively few head offices from other industries. In each of these cities, energy companies represent roughly 70 percent of all large company revenue. The second type of city reflects the location of large state-owned companies; these are typically capital cities, such as Moscow and Beijing, or cities close to the actual resources such as Dammam and Rio de Janeiro. The third type of city hub becomes a center for resource-related trading, service, and investment companies; these tend to be global financial or trading centers such as Tokyo, New York, Amsterdam, and London.

After the top-ranked hubs for companies in extractive industries comes a long tail of 44 cities with one mining or oil giant and no other large companies (Exhibit 16). These include the Angolan capital of Luanda and the Nigerian capital of Abuja, both of which have established nationally owned oil companies. Large companies in these industries are found in lesser-known cities such as Krasnoyarsk in Siberia, Russia, and Yan'an and Jincheng, both in the Shanxi Province of China. Each of these cities hosts the headquarters of a company with revenue of more than $10 billion.

Exhibit 16

Many oil and gas giants are the only large company in their city

Major cities, by revenue of oil, gas, and petroleum refining companies with global headquarters in the city



1 Randstad metropolitan area.
SOURCE: MGI CompanyScope; McKinsey Global Institute analysis

MANUFACTURING

Of the 8,000 large companies in the MGI CompanyScope database, 33 percent are in the manufacturing sector. Tokyo alone is home to 263 large manufacturing companies in a broad range of subsectors; that is almost three times as many as Osaka, the next city on the list, with 93 manufacturing headquarters.

Advanced manufacturing tends to cluster in leading hubs, but low-tech manufacturing headquarters are spread across a wider range of cities. Vehicle manufacturing, for instance, is dominated by a small number of large firms with average revenue of $11.3 billion. Companies that account for some 71 percent of revenue generated by the large companies in this industry are concentrated in only 20 cities, with Tokyo and Detroit the leaders. Another Japanese city, Nagoya, has been dubbed “Japan’s Detroit,” as it is home to 44 headquarters of large manufacturing companies, including automakers and automotive suppliers.

There is no consistent relationship between the locations of manufacturing companies vs. companies from other sectors. Automotive manufacturing, for instance, appears largely to reflect legacy choices. Historic company locations with established supplier bases tend to be “sticky”; companies cluster in these hubs rather than locating close to other industries or to customers. It is striking that worldwide vehicle manufacturing companies are clustered into only three main hubs (Exhibit 17).

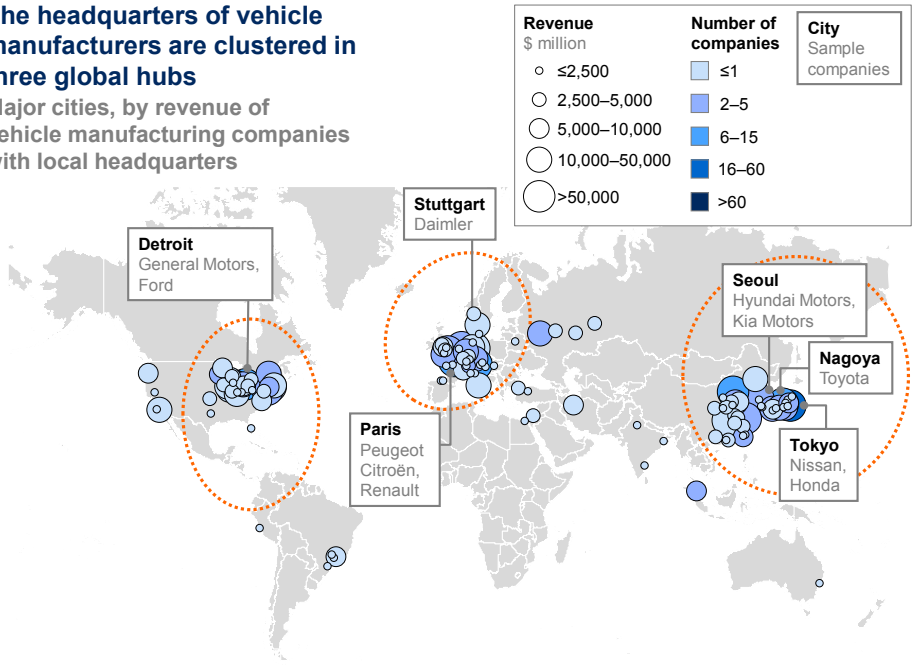
The head offices of electronics manufacturing firms are also concentrated in a small number of key cities, but in this subsector, companies are much smaller. Four of the five cities with the greatest number of headquarters of electronics manufacturers are in Asia (Tokyo, Osaka, Taipei, and Hong Kong); the fifth is San Jose, California.

Companies in other manufacturing industries tend to be of a smaller average size and are more dispersed. For example, 46 cities are home to a single large basic metals and materials manufacturer, without another company posting revenue of more than $1 billion (Exhibit 18).

Exhibit 17

The headquarters of vehicle manufacturers are clustered in three global hubs

Major cities, by revenue of vehicle manufacturing companies with local headquarters

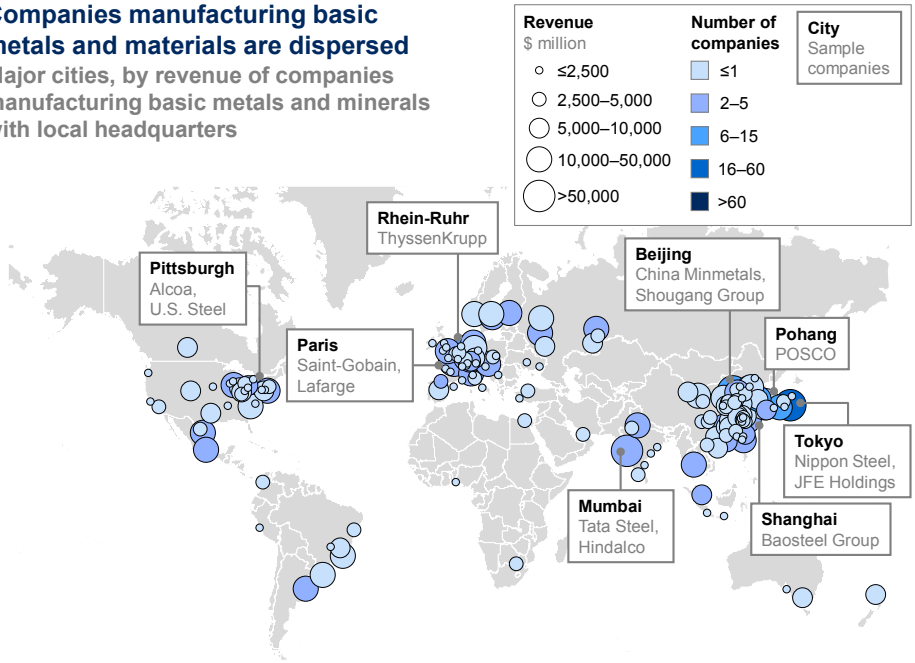


SOURCE: MGI CompanyScope; McKinsey Global Institute analysis

Exhibit 18

Companies manufacturing basic metals and materials are dispersed

Major cities, by revenue of companies manufacturing basic metals and minerals with local headquarters



SOURCE: MGI CompanyScope; McKinsey Global Institute analysis

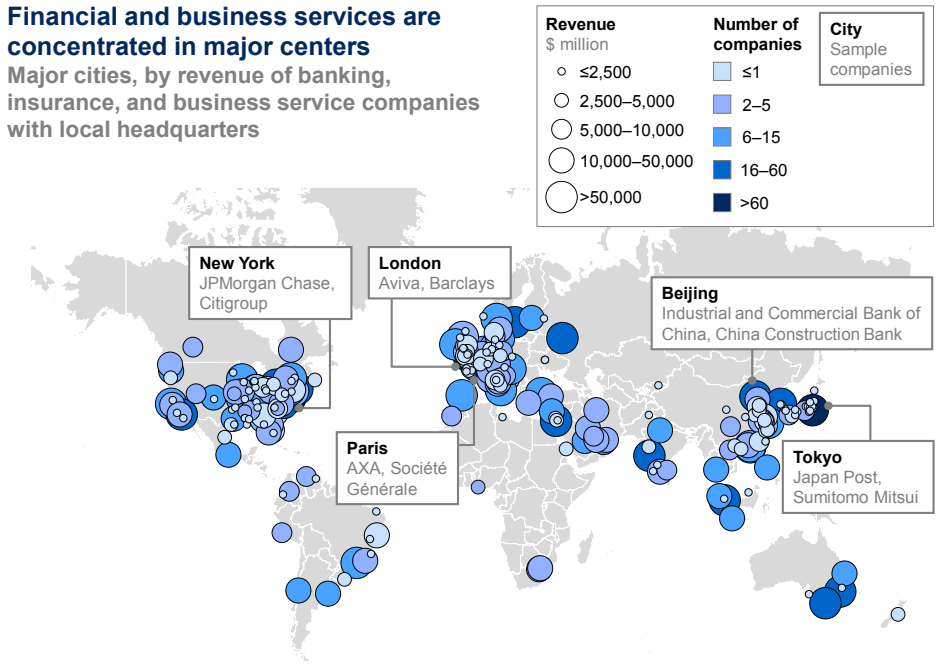
SERVICES

Overall, service companies are more likely to locate their head offices in cities with many other large companies.[48] In fact, all ten cities with the greatest number of head offices in these sectors also make the top ten for total headquarters in all industries (a list that is led by Tokyo, New York, and London). However, there are variations across different service activities. Business services such as advertising and consulting are likely to locate close to their customers, in cities with a large number of large company headquarters. Similarly, insurance and banking headquarters align to those of other industries and are particularly concentrated in global financial hubs, because of both historical trends and the fact that these sectors benefit from proximity to their customers (Exhibit 19).

Exhibit 19

Financial and business services are concentrated in major centers

Major cities, by revenue of banking, insurance, and business service companies with local headquarters



SOURCE: MGI CompanyScope; McKinsey Global Institute analysis

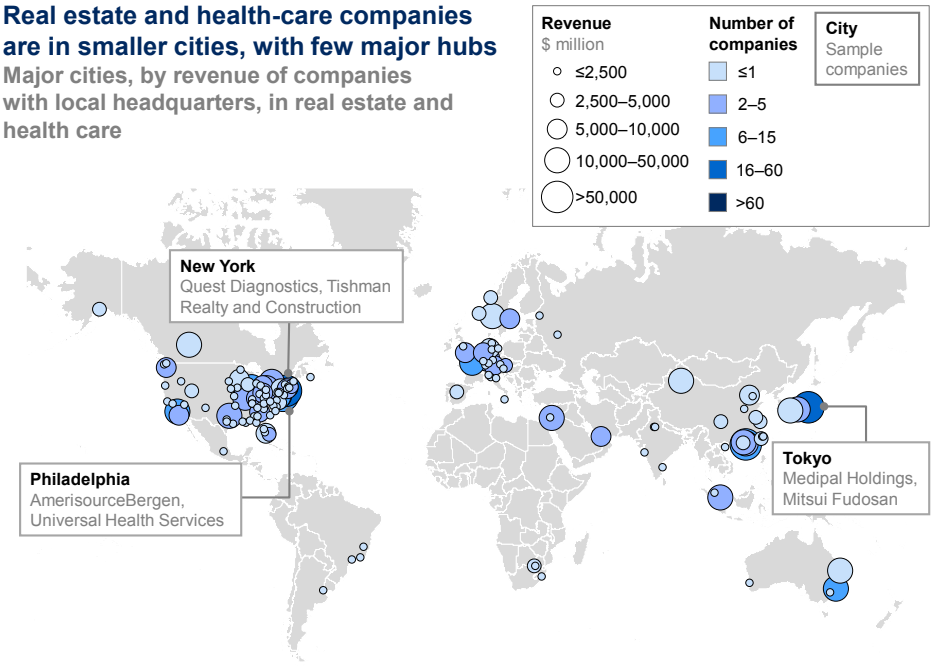
However, another group of service industries, including health care and real estate, are highly local in nature, as a result of either regulation or the need to have access to local expertise. Their headquarters are found in a large number of medium-sized cities spread across different countries and regions (Exhibit 20). Retail and other service industries fall somewhere in the middle, with a mix of large companies that can be regional or global.

48 The correlation of business service headquarters with head offices in other industries is higher than in any other industry. For each sector, we took the number of companies headquartered in each city, then considered the correlation between the ranks of cities in each industry.

Exhibit 20

Real estate and health-care companies are in smaller cities, with few major hubs

Major cities, by revenue of companies with local headquarters, in real estate and health care



SOURCE: MGI CompanyScope; McKinsey Global Institute analysis

Large foreign subsidiaries are even more concentrated than company headquarters

Head office locations are only one aspect of the corporate landscape. Large foreign subsidiary companies represent another important dimension. To understand this, our database also tracks some 2,300 of these operations with $1 billion or more in revenue.[49]

Large subsidiaries are more concentrated than global corporate headquarters, reflecting in part the fact that they are established through conscious decisions of companies and are less constrained by legacy considerations than the location of headquarters. Looking at the results on a national level, we find that Singapore—with its attractive business environment and good access to the surrounding region—stands out for a remarkable density of regional head offices relative to its GDP (Exhibit 21).

When choosing a base for their foreign operations, companies tend to congregate into a few favorite cities—and the list of top cities chosen for foreign subsidiary offices is quite different from the list of cities with the greatest numbers of headquarters. Worldwide, 25 top cities host half of all foreign subsidiaries. London, Paris, and New York rank first, third, and fourth, and are among the top five cities for global headquarters. But second and sixth places go to Singapore and São Paulo—neither of which ranks higher than 20th for global headquarters. For now, most large foreign operations are still located in advanced economies (even though their share of subsidiaries is lower than their share of large company global headquarters). Western Europe is home to a very high 41 percent of all

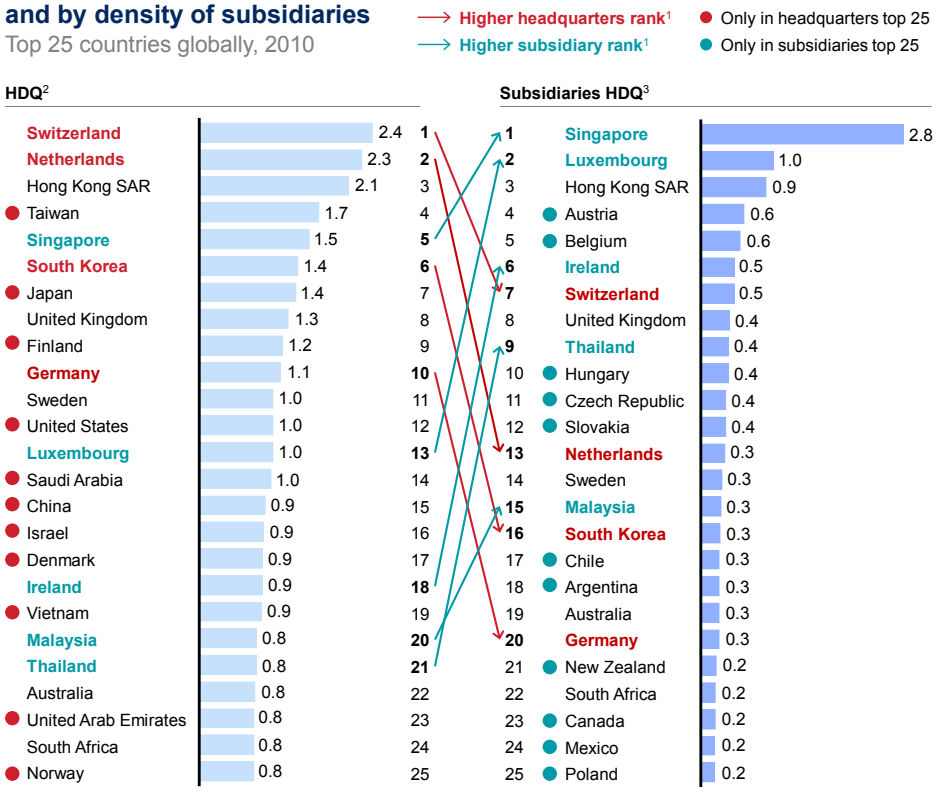
49 See the technical appendix for details of how we built the MGI CompanyScope database.

foreign subsidiaries, 3.4 times the US share, as European firms have expanded their footprint across national economies to penetrate more of Europe's single market. Almost two-thirds of the region's foreign subsidiaries have a parent in another Western European country. The Royal Dutch Shell Group, for example, has subsidiaries in most Western European countries (in addition to many more outside its home region). Large Western European companies also have around 40 percent more large foreign subsidiaries outside their home region than parent companies based in the United States and Canada.[50]

Exhibit 21

Different countries are leading locations by density of companies and by density of subsidiaries

Top 25 countries globally, 2010



1 By more than three places.
2 HQD is the ratio of revenue of companies with revenue of $1 billion or more, with their global head office in a country, to GDP, 2010. Only countries with ten or more large companies are included.
3 The ratio of revenue of foreign subsidiaries with ratios of $1 billion or more in a country to GDP, 2010. Only countries with ten or more large subsidiaries are included.

SOURCE: MGI CompanyScope; McKinsey Global Institute analysis

Among all emerging regions, Latin America and Southeast Asia stand out for the fact that their share of all foreign subsidiaries is around three times higher than their share of large company headquarters (Exhibit 22). This reflects explicit policy choices. Since the 1950s, many Latin American countries have had import substitution policies in place to attract foreign companies to invest and produce locally, while part of Singapore's economic development strategy has been to become Asia's hub for the regional offices of multinational companies.[51] In contrast, the China region, including Hong Kong, is host to only 4 percent of all

50 Estimates based on a sample of 797 foreign subsidiaries with revenue over $1 billion with a parent from Western Europe, the United States, or Canada.

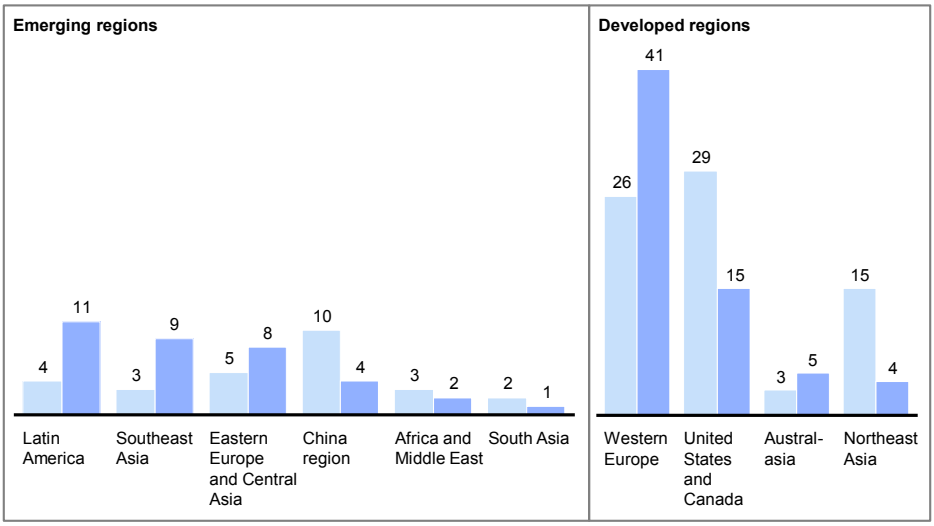
51 Christopher M. Dent, "Transnational capital, the state and foreign economic policy: Singapore, South Korea and Taiwan," *Review of International Political Economy*, volume 10, number 2, May 2003.

large foreign subsidiaries, less than half of its share of global large companies. Again, this reflects the high share of SOEs and the relatively recent opening of the Chinese economy to foreign investors.

Exhibit 22

Latin America and Southeast Asia have much bigger shares of large foreign subsidiaries than of global headquarters

Share of large company global headquarters and foreign subsidiaries
%



SOURCE: MGI CompanyScope; McKinsey Global Institute analysis

Among emerging regions, the differences in city rankings between global headquarters and foreign subsidiaries are striking (Exhibit 23). São Paulo, Mexico City, and Buenos Aires are among the top five subsidiary hubs in emerging economies, but none is among the top five for global headquarters. Again, Latin American import substitution policies and Singapore's focus on attracting regional head offices contribute to these differences. In the emerging economies of Asia outside the China region, for instance, more than half of foreign subsidiaries are in Singapore. In Latin America, 23 percent are located in São Paulo. Japan and South Korea, on the other hand, are advanced economies that have only recently moved away from policies that restricted FDI.[52] As a consequence, Tokyo has more than ten times as many global headquarters as foreign subsidiaries.

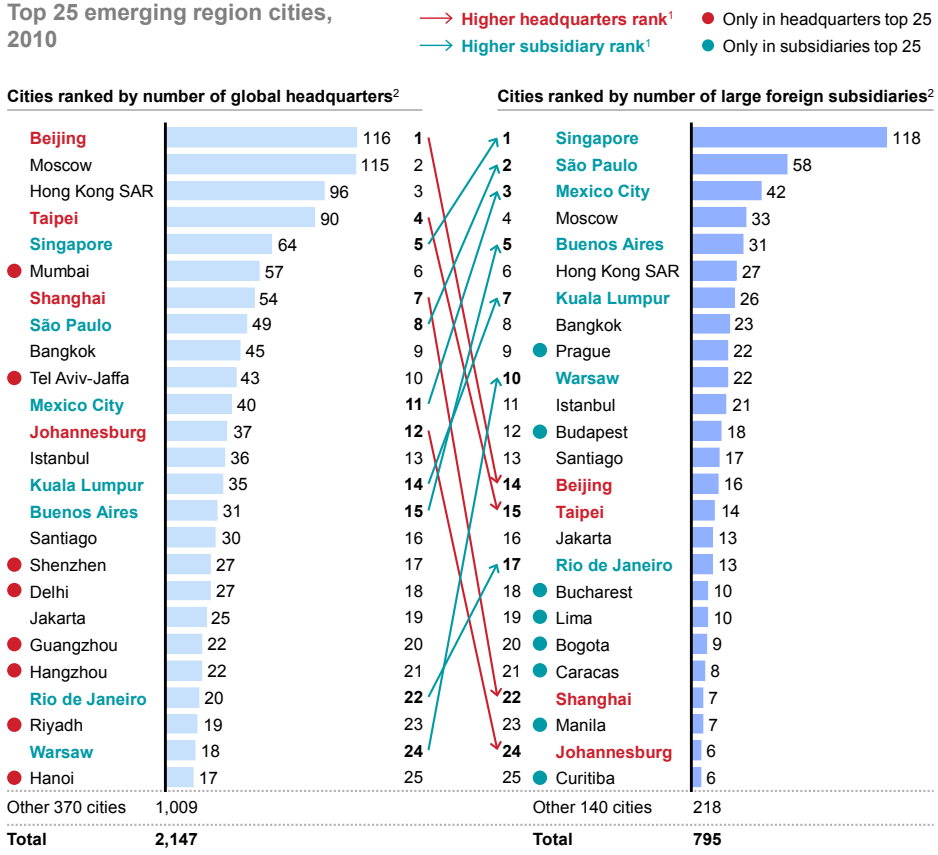
Today large foreign subsidiaries are still predominantly from parent companies based in developed markets, and they are heavily concentrated in just a few key cities in each region (Exhibit 24; see also Box 6, "Sydney, Toronto, and Prague: Destinations of choice for large foreign subsidiaries").

52 Ha-Joon Chang, *Bad samaritans: The myth of free trade and the secret history of capitalism*, Bloomsbury Press, 2008; Ha-Joon Chang, "Regulation of foreign investment in historical perspective," *European Journal of Development Research*, volume 16, number 3, Autumn 2004; Alice Amsden, *The rise of "the rest": Challenges to the West from late-industrializing economies*, Oxford University Press, 2001.

Exhibit 23

In emerging regions, the leading cities for global headquarters differ significantly from the locations of choice for foreign subsidiaries

Top 25 emerging region cities, 2010

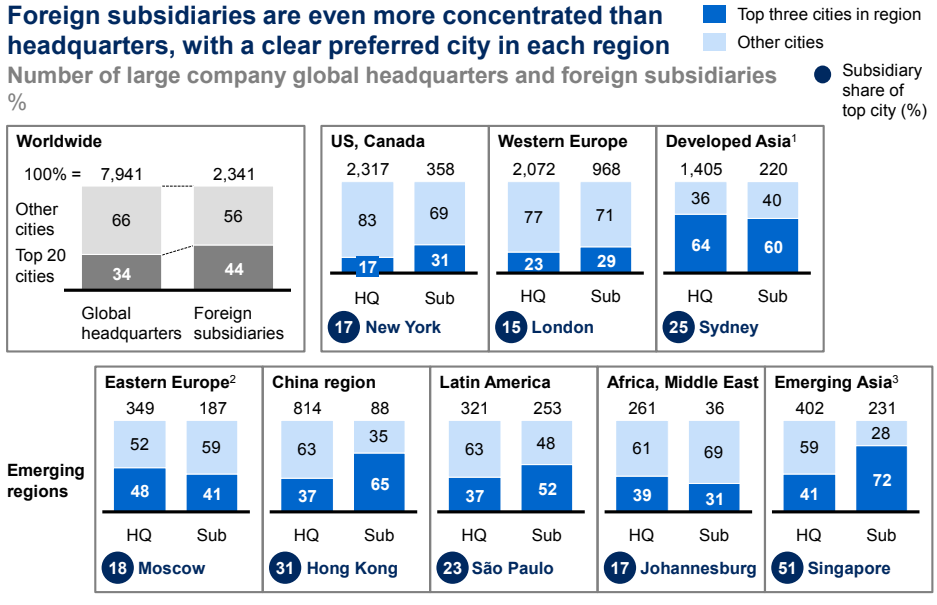


1 By more than three places.
2 Companies with revenue of $1 billion or more in 2010 or closest available year.
SOURCE: MGI CompanyScope; McKinsey Global Institute analysis

Exhibit 24

Foreign subsidiaries are even more concentrated than headquarters, with a clear preferred city in each region

Number of large company global headquarters and foreign subsidiaries
%



1 Including Australasia.
2 Including Turkey.
3 Excluding China.
NOTE: Not to scale.
SOURCE: MGI CompanyScope; McKinsey Global Institute analysis

Box 6. Sydney, Toronto, and Prague: Destinations of choice for large foreign subsidiaries

Across all geographical regions, large foreign subsidiaries cluster in cities that the Economist Intelligence Unit ranks highly for their "livability" compared with other cities in the region.[53] While legacy factors often lie behind the locations of global headquarters, the location of a foreign subsidiary is much more commonly an explicit choice by management. Obviously factors such as market proximity, airport connections, regulation, and general business environment inform the list of contending cities. Beyond those, companies are drawn to locations where current managers and their families would like to live or visit. Cities with a reputation for a high quality of life—which includes such factors as attractive surroundings, culture, efficiency, schools, and housing stock—enjoy a great deal of success in attracting foreign subsidiaries.

Sydney, for example, is home to 54 foreign subsidiaries, topping even Tokyo's 47 (although the latter has more than eight times as many global headquarters). Sydney ranks in the top ten most livable cities worldwide and has attracted a well-balanced mix of foreign subsidiaries across industries.

In North America, New York, Toronto, and Chicago are the top three cities for large foreign subsidiaries. While New York and Chicago also host a strong number of global headquarters for domestic companies, Toronto ranks only seventh on this metric. But it has established a reputation for livability that is especially attractive for foreign companies seeking to establish subsidiaries in the region. The *Financial Times* ranked Toronto among the top three North American "cities of the future" for its economic potential, business friendliness, and FDI strategy.[54] In addition, foreign companies can tap into Toronto's local talent, as nearly one-third of the city's labor force holds a bachelor's degree or higher.[55] Companies may also choose Toronto to avoid some of the visa issues that they would face with a subsidiary based in the United States.

Prague and Warsaw are among the standouts in Eastern Europe. Foreign companies started coming to Prague in the 1990s because the city boasted the highest living standard of any post-Communist capital city.[56] Today, foreign companies in the region gravitate to Prague because the city has an established expatriate community served by English-speaking schools. In addition, Prague, Budapest, and Warsaw are the most livable cities in Eastern Europe, while Prague also scores highly for a well-educated working population and its proximity to Western Europe.[57]

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53 *Global liveability report 2012*, Economist Intelligence Unit, August 2012. In a regression of the number of subsidiaries, the livability rank is a highly significant determinant within regions when controlling for the city's GDP.

54 "American cities of the future 2013/14," *Financial Times,* fDi Intelligence division, April/May 2013.

55 *Toronto as a global city: Scorecard on prosperity—2011*, Toronto Region Board of Trade, 2011. The scorecard indicates that more than 50 percent of the region's population aged 25 years or older has completed post-secondary education. Over 30 percent of this group has received a bachelor's degree and 11 percent a graduate degree.

56 Eurostat data show that, in 2000, per capita GDP at purchasing power parity in Prague was at 139 percent of the EU-27 average, the highest urban per capita GDP in Eastern Europe in the EU-27.

57 Prague has a global record high 92 percent share of its population with at least an upper secondary education. See *Education at a glance 2010: OECD Indicators*, Organisation for Economic Co-operation and Development (OECD), 2010.

□ □ □

Today only one-third of the world's major cities can claim a large company headquarters, but the business landscape is steadily expanding into new geographies and growing more complex. This is particularly true as it becomes imperative for many large companies to establish foreign subsidiaries. Studying a snapshot of today's patterns—both by city and by industry—can yield valuable insights, but business leaders have to monitor these trends continuously in order to spot new markets and competitors. In the next chapter, we look ahead to a great wave of change forming as thousands of new companies from across the emerging world realize their global aspirations and assert their presence in a wide range of industries.

3. The global business landscape is shifting toward emerging regions

The previous chapters have provided a snapshot of today's global landscape for large companies, but the picture is by no means static. From the Fortune Global 500 of 1998, for instance, only 270 names remained on the 2012 list; 140 fell below the rising revenue threshold, and another 90 companies left the list due to a merger, acquisition, or bankruptcy.[58] These companies were replaced by 230 new entrants to the ranking.

In the decade ahead, rapid change is likely to continue. Today, there are roughly 8,000 large companies worldwide, and we expect an additional 7,000 companies to cross this threshold by 2025. The collective revenue of all large companies is on course to more than double, reaching $130 trillion by then.

This chapter examines the most transformational aspect of this shift, the location of these new companies. Seven out of every ten of these new large companies are likely to be based in emerging regions. Their share of large companies is set to jump from just over one-quarter to almost half of the global total by 2025, outpacing the rise in their share of global GDP. This geographic rebalancing will have profound implications for the nature of competition, including the race for resources and talent, and for standard setting, innovation, and the sustainability of economic growth and job creation in emerging regions.

The rise of large companies based in emerging regions reflects the opportunities created by rapid GDP growth in their home markets—including a great wave of urbanization that makes populations easier to reach and more attractive to employ. As previous MGI research has highlighted, some one billion people in cities of the emerging world will enter the global "consuming class" by 2025, meaning they will have sufficient incomes to become significant consumers of goods and services. Many products are hitting take-off points at which their consumption rises steeply.[59] In addition, emerging markets are becoming a source of higher-skill talent: India and China, for instance, are likely to provide more than half of the increase in the world's supply of workers with some college education and two-thirds of the increase in science and engineering graduates expected by 2030.[60] With this kind of growth as a backdrop, companies are expanding, maturing, and reconfiguring through mergers or acquisitions, and a new wave will soon join the ranks of the world's corporate giants. This company growth will shift more of the world's decision making, capital, and innovation to emerging economies.

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58 Analysis based on 728 companies that have been listed in the Fortune Global 500 in at least one year between 1998 and 2012. The threshold for companies entering the Fortune Global 500 increased by about 84 percent over these 14 years, from $12 billion in 1998 to $22 billion in 2012 (measured in constant dollars using 2012 as the base year).

59 *Urban world: Cities and the rise of the consuming class,* McKinsey Global Institute, June 2012. See also *Winning the $30 trillion decathlon: Going for gold in emerging markets,* McKinsey & Company, August 2012.

60 *The world at work: Jobs, pay, and skills for 3.5 billion people,* McKinsey Global Institute, June 2012.

By analyzing today's patterns of large company presence and future GDP growth, we expect that each of the almost 400 emerging cities that already host at least one large company will add an average of 11 new large companies apiece. Furthermore, our rough estimate indicates that about 280 cities in emerging regions might host a large company headquarters for the first time, creating some surprising new business hubs. By contrast, almost all new large companies in advanced economies are likely to be located in cities that are already home to headquarters. In fact, there may even be more clustering of head offices in leading cities.

By 2025, 4,800 new large companies are expected to be based in emerging regions

The number of large companies based in emerging regions is poised to far more than triple by 2025, rising from around 2,200 today to about 7,000 in 2025. This would outpace GDP growth in emerging economies, which is projected to increase by a factor of 2.5. The share of large companies based in emerging regions is expected to increase from 27 percent of the global total in 2010 to 46 percent by 2025.[61] We expect a similar shift of global consolidated revenue from large companies, with the share generated by those based in emerging regions poised to rise from 24 to 46 percent of the global total (Exhibit 25; see also Box 7, "Estimating the growth of large companies").

Two forces explain the accelerating rise of large companies based in the emerging world. First, emerging regions currently have a significantly smaller base of large companies relative to their GDP, creating room for catch-up growth. Second, cities in these regions are experiencing faster GDP growth than cities in advanced economies, creating new business opportunities.[62] Among the underlying sources of GDP growth in emerging regions are rapid urbanization, income growth, and exchange-rate appreciation. Mass urbanization is moving people from the countryside to more densely populated urban centers, where large companies can benefit from economies of scale. For instance, large housing developers can gain share from individual residential construction operations as demand for housing increases, while utilities can increase their penetration and reach.[63] At the same time, incomes are rising particularly rapidly in cities, fueling new demand for

61 These projections depend on assumptions of future GDP growth, but they are based on relatively conservative company growth assumptions and are directionally robust to a reasonable range of GDP growth projections. Our sensitivity analysis with alternative GDP growth assumptions indicates that by 2025, the total number of large companies with more than $1 billion in revenue may vary from 14,000 to 17,000. Emerging regions' share of the global total varies from 41 to 49 percent. See the technical appendix for further detail.

62 Growing markets in emerging regions will fuel the growth of many companies based in developed regions, too. However, most companies from emerging regions have a higher share of their sales in these rapidly growing regions. Thus, the extent to which they benefit from the underlying market growth in emerging regions is relatively higher than it is for companies in developed regions. New companies are also more likely to be based close to their target markets, again contributing to the faster growth of those based in rapidly growing emerging regions.

63 McKinsey research in India, for instance, has found that it can be 30 to 50 percent cheaper to deliver services such as water, housing, and education in densely populated cities than in sparsely populated rural areas. See *India's urban awakening: Building inclusive cities, sustaining economic growth*, McKinsey Global Institute, April 2010.

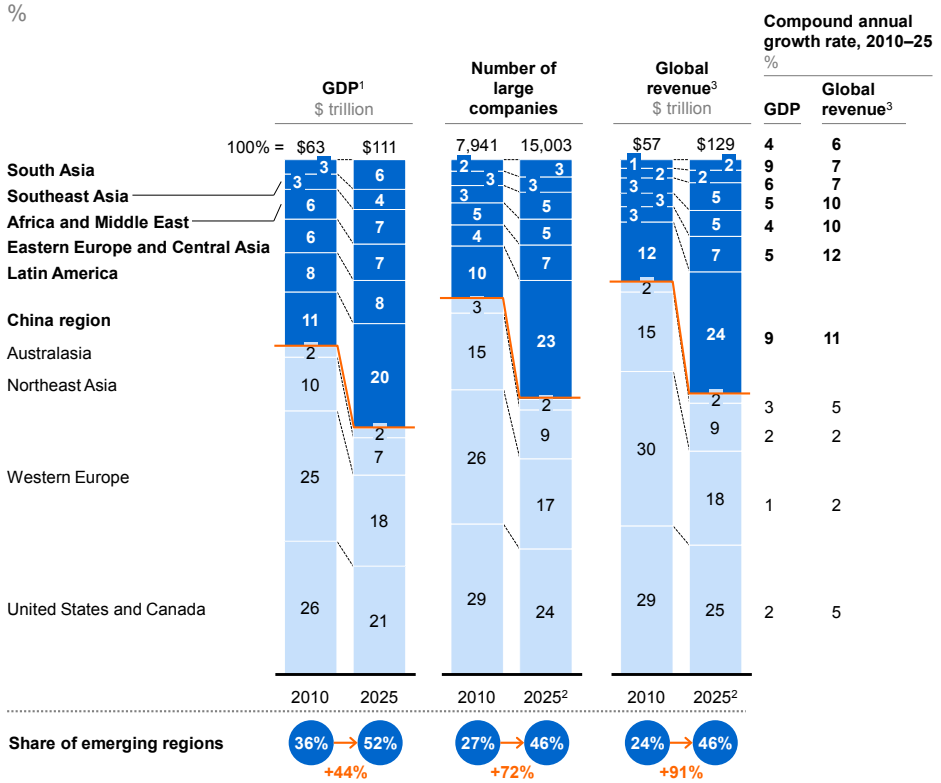
services such as retail, professional, and personal services.[64] This is a pattern we already see at work. For instance, urban per capita income in Brazil and Mexico today is more than 30 percent higher than that in China (measured at purchasing power parity); 36 percent of large domestic companies in Brazil and 40 percent of those in Mexico are in the service sector, compared with only 27 percent in China (see Box 8, "The globalization of the Fortune Global 500").[65]

Exhibit 25

The impending shift of large companies toward emerging regions is likely to be much faster than the shift in GDP

Growth scenario for key economic indicators

%



1 Cityscope data for 180 countries; real GDP in $ trillion of base year 2010 (real exchange-rate adjusted).
2 Projections for 2025 are based on city GDP forecasts (see technical appendix for methodology).
3 Global revenue of large companies mapped to the global headquarters location.
NOTE: Numbers may not sum due to rounding.
SOURCE: MGI CompanyScope; McKinsey Global Institute analysis

64 *Urban world: Cities and the rise of the consuming class*, McKinsey Global Institute, June 2012.

65 In 2010, urban per capita GDP was around $16,000 (measured at purchasing power parity) in Brazil and Mexico, compared with $12,100 in China.

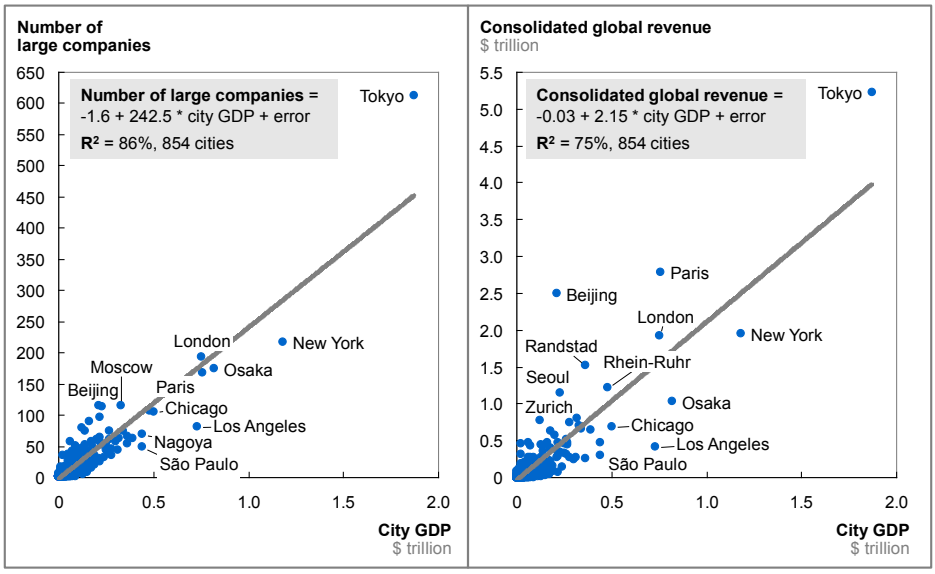
Box 7. Estimating the growth of large companies

Our city-level estimates of the number of large companies and their collective revenue are based on the patterns of large company presence (number and collective revenue) across cities of different sizes today and their expected GDP growth (Exhibit 26).[66] This reflects the broader opportunities that larger urban economies provide for local company growth and the role that companies play in contributing to GDP. For example, in the case of China between 2006 and 2012, using city GDP growth as a variable in linear regression model "explains" more than a third of the actual change in the number of Chinese firms ranked among the 2,000 biggest companies worldwide.[67] Our estimates are relatively conservative: we assume that the historically observed relationships of city GDP to the number of local companies will hold in 2025.

Exhibit 26

On a city level, GDP is the major driver of the number of large companies and their corresponding revenue

2010



SOURCE: MGI CompanyScope; McKinsey Global Institute analysis

66 MGI estimates city-specific GDP growth rates from 2010 to 2025 based on the average of country GDP growth projections from IHS Global Insight, the Economist Intelligence Unit, Oxford Economics, and McKinsey's Long-Term Growth Model in combination with region-specific approaches that reflect whether past GDP growth data were available for the city or not. See also *Urban world: Cities and the rise of the consuming class,* McKinsey Global Institute, June 2012.

67 See the technical appendix for more detail.

We use a similar approach for estimating the consolidated global revenue of large companies. The correlation of GDP with consolidated global revenue is also high, with an R^2 of 75 percent (although it is lower than the correlation for the number of companies). This is consistent with the fact that the revenue of many companies is generated in much broader geographic areas: consolidated revenue of the new and existing large companies is expected to grow faster than the GDP of their home cities as companies expand nationally and internationally. This is broadly consistent with past evidence in the United States and in the China region. In the United States, for example, the combined revenue of the top 100 companies (by revenue) increased at an average annual rate of 3 percent between 2004 and 2010, while the GDP of their home cities increased at an average annual rate of less than 1 percent. In the China region, this difference in growth rates is even more striking. The 60 largest companies increased their revenue at an average annual rate of 27 percent between 2006 and 2012, while the GDP of their home cities grew at an average annual rate of 7 percent. Also, the number of Chinese firms ranking among the 2,000 biggest companies worldwide grew at an average annual rate of 13 percent between 2006 and 2012; this is 20 percent faster than even the rapid 11 percent annual GDP growth of an average home city.[68]

These projections should be interpreted as one scenario reflecting the broad patterns we expect to see across regions. Despite the recent volatility in emerging markets, we believe the broad patterns of long-term growth will continue, and our assumptions remain robust across a reasonable range of key assumptions. These projections should not be used to predict city growth prospects, however, as individual cities will deviate from the average patterns depending on factors such as the success of specific companies, and mergers and acquisitions. Nor should any of these projections be used to assess growth prospects of individual companies. All of the projections reflect the expected development of the aggregated pool of all large companies based in a city, including aggregate revenue changes among the large companies that remain in the pool, entry of new companies that pass the $1 billion threshold or move to a city, and the exit of companies that fall below the $1 billion threshold or move away from the city. The growth of an individual company may vary widely around the mean even within an individual city.

68 Evidence for the United States is based on the 103 largest companies on the New York Stock Exchange that existed in 2004. For the China region, revenue growth rates are based on 61 companies located across 14 cities that ranked in the Forbes Global 2000 between 2006 and 2012. During the same period, the number of Chinese companies in the Forbes Global 2000 overall increased from 105 to 223, translating into a compound average growth rate of 13 percent. See the technical appendix for detailed analysis.

Box 8. The globalization of the Fortune Global 500

The Fortune Global 500 is a particularly interesting group to analyze: these giants include only 6 percent of all large companies with revenue over $1 billion globally, but they account for 41 percent of cumulative revenue. These names are worth watching purely for their capacity to impact overall economic performance. Recent academic research has shown that the fate of the largest companies matters more for the macroeconomic performance of nations than was previously thought. In the United States, for example, up to almost half of GDP volatility can be linked to changes in the performance of the largest 100 companies alone.[69]

Before the year 2000, few companies based in emerging regions made it into the top ranks of global companies. Between 1980 and 2000, only 5 percent of the Fortune Global 500 consisted of companies from outside developed regions. Among the 23 companies on the list in 1980 from emerging regions, 15 were in extractive industries. The eight largest were the national petroleum companies of Venezuela, Brazil, Mexico, Taiwan, Argentina, India, Kuwait, and Turkey. In contrast, the number of Japanese companies on the list rose from 68 in 1980 to 104 in 2000, and number of South Korean companies rose from six to 11.

Since 2000, however, the emerging world has asserted its presence in the Fortune Global 500. Names from emerging economies have been increasing consistently at an average annual rate of 14 percent. By 2010, 85 companies had entered this exclusive club (accounting for 17 percent of the total), and 13 countries across all six emerging regions were represented. Companies in extractive industries are still among the new entrants and fast-rising names since 2000: China's Sinopec and China National Petroleum are in the top ten, while Russia's Gazprom and Lukoil are in the top 100. Yet there is an increasing number of companies from other industries. These include telecommunications giants such as China Mobile Communications and Mexico's América Móvil, and Taiwan's electronics manufacturing powerhouse Hon Hai Precision Industry (better known as Foxconn), the contract manufacturer for products such as the iPad, iPhone, Kindle, PlayStation, Xbox, and Wii.

69 Xavier Gabaix, "The granular origins of aggregate fluctuations," *Econometrica*, volume 39, issue 3, May 2011; Julian di Giovanni and Andrei A. Levchenko, "Country size, international trade, and aggregate fluctuations in granular economies," *Journal of Political Economy*, volume 120, number 6, December 2012; Claudia Canals et al., "Trade patterns, trade balance and idiosyncratic shocks," *Journal of Political Economy*, 2012.

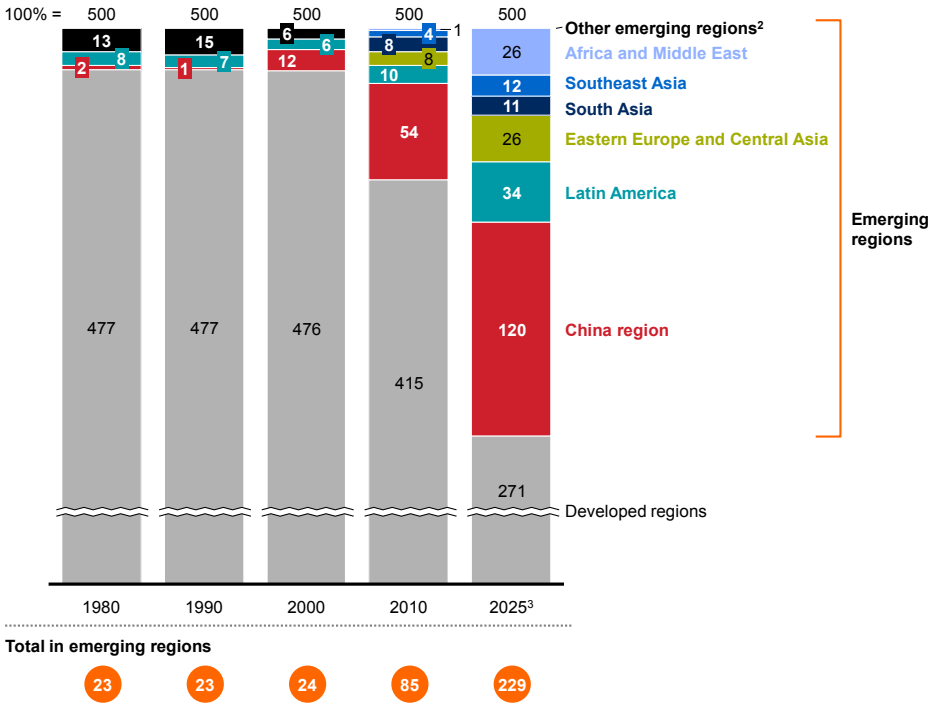
Based on projected company growth by region, we expect the emerging world to account for more than 45 percent of the Fortune Global 500 by 2025.[70] This shift will create a new map of the world's business landscape. We anticipate that the China region will host 120 of the companies on the list by that year—more than the United States (Exhibit 27). This echoes the historic rise of Japanese and South Korean companies. As Japan became the world's third-largest economy in 1960s, its growth propelled large companies such as Panasonic, Toyota, and Honda to become globally known brands that challenged industry leaders in the West. Similarly, South Korea made a leap from 27th to 12th in global GDP rankings between 1980 and 2011, with industrial powerhouses such as Samsung, Hyundai, and LG Electronics growing in tandem and capturing market share in developed regions.

Exhibit 27

Cities in emerging regions were home to 85 companies in the Fortune Global 500 in 2010, but that number is expected to reach 230 by 2025

Evolution of the Fortune Global 500[1]

Number of Fortune Global 500 companies



1 The Fortune Global 500 is an annual ranking of the top 500 companies worldwide by gross revenue in US dollars.
2 Shares of emerging regions excluding China and Latin America combined until 2000.
3 Fortune Global 500 share in 2025 projected from revenue shares of countries in 2025.
NOTE: Numbers may not sum due to rounding.
SOURCE: MGI CompanyScope; McKinsey Global Institute analysis

70 Under alternative GDP growth scenarios, the 2025 projected share of Fortune Global 500 companies based in emerging regions ranges between 39 percent and 50 percent. See appendix for more detail on the range of assumptions behind the alternative scenarios.

Companies based in emerging regions will also grow by expanding overseas from their main locations, a trend we are already observing. Emerging economies are not only the recipients of FDI; they are also becoming increasingly important sources of FDI. In 2001, only 5 percent of outward FDI flows came from countries that were not members of the Organisation for Economic Co-operation and Development (OECD), but by 2011, their share of outward FDI was up to 21 percent.[71] In recent years, Brazil, Singapore, Hong Kong, and Russia, for example, have directed significant FDI into Europe.[72] China's outward FDI increased by an average of almost 50 percent per year between 2004 and 2010, reaching almost $70 billion, with two-thirds going to other Asian countries.[73]

Multinationals headquartered in emerging regions are increasingly asserting their presence in foreign markets through acquisitions and organic growth. China's Shuanghui, for example, was, at the time of writing, in the midst of acquiring US-based Smithfield Foods, the world's largest pork producer and processor.[74] And Thai Union Group, the world's largest canned-tuna producer, has owned the Chicken of the Sea brand in the United States since 1997 and the United Kingdom's John West Foods since 2010.

More emerging-market cities are likely to host large company headquarters

By 2025, the company landscape in emerging regions is likely to broaden to cover more cities and become less concentrated, while we expect little change in the profile of cities hosting head offices in developed regions (Exhibit 28). We estimate that roughly 280 growing cities in emerging economies could host large companies for the first time by 2025, an increase of more than 70 percent from today's number.[75] Among the newcomers could be growing cities such as Campinas, Brazil; Daqing, China; and Izmir, Turkey. We estimate that more than 150 of these up-and-coming host cities will be in the China region, while in Western Europe, only three new cities will become new large company homes—a striking difference that illustrates the magnitude of the shift that is looming.

This growth in the number of headquarter cities will not be exclusively driven by private-sector companies riding the growth wave in emerging regions. Given the huge scale of urbanization in these regions, many cities will reach sufficient scale for local or regional public utilities, health-care services, or logistical centers to

71 From *International direct investment statistics 2013*, OECD, 2013. The classification of non-OECD countries excludes countries like Mexico and Chile, which joined the OECD in 1994 and 2010, respectively. As a result of the increase in non-OECD companies from emerging regions in the past ten years, the subject has received renewed interest. See, for instance, Ravi Ramamurti and Jitendra Singh, *Emerging multinationals in emerging markets*, Cambridge University Press, 2009; Alessia Amighini, Roberta Rabellotti, and Marco Sanfilippo, "The outward FDI from developing country MNEs as a channel for technological catch-up," *Seoul Journal of Economics*, volume 23, number 2, 2010.

72 Based on Eurostat's foreign direct investment statistics 2010.

73 Data from *2010 statistical bulletin of China's outward foreign direct investment*, Ministry of Commerce, People's Republic of China. Outbound FDI flows measured in constant dollars with 2010 as the base year.

74 At the time of writing, the Smithfield acquisition was still undergoing US regulatory review and had not yet been approved by shareholders.

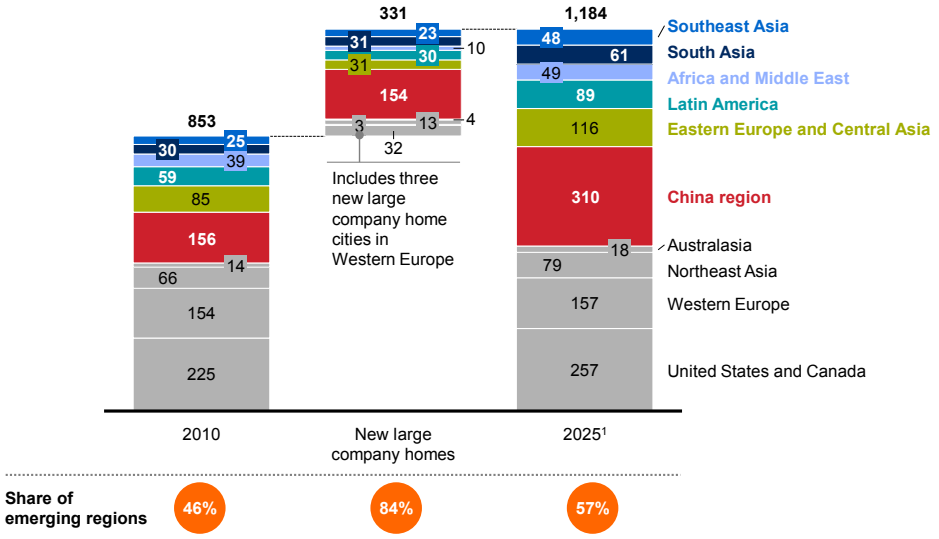
75 The prediction should be taken as a rough estimate only, given that the exact number of new cities is sensitive to the specification used for GDP city ranges.

cross the $1 billion revenue threshold. Take the case of telecommunications. Across all regions, demand for telephone services is between 2 percent and 5 percent of a country's GDP today.[76] Roughly, this implies that for every $20 billion to $50 billion increase in a given area's GDP, we can expect $1 billion worth of additional demand for telecommunications. In fact, a number of even smaller cities in emerging regions, including Bandung (Indonesia), Damascus, and Hanoi, already host large telecommunications companies. Although these cities themselves currently have GDP of between $6 billion and $12 billion, they host the telecommunications companies that serve their entire home countries.

Exhibit 28

Of the 331 new cities that could host large company headquarters by 2025, 154 are in the China region and only three are in Western Europe

Number of cities to cover large companies



1 Projections for 2025 are based on city GDP forecasts (see technical appendix for methodology).
SOURCE: MGI CompanyScope; McKinsey Global Institute analysis

Despite the broadening base of large company host cities, the leading business hubs in emerging regions today are likely to continue to attract a disproportionate share of future company growth (see Box 9, "China and Latin America are likely to be the top two locations for new companies"). São Paulo, for example, is expected to more than triple its number of headquarters by 2025, while Beijing and Istanbul could have more than twice as many large companies. More than 400 cities in emerging regions already host at least one large company (or many more), and our analysis suggests that these same cities will add more than 3,900 companies by 2025—an increase of more than 180 percent. Despite the robust growth of existing business headquarters, company head offices will become more dispersed across the emerging world. Today, 80 percent of the 2,200 large companies in emerging economies are spread across 100 cities; by 2025, 80 percent of the 7,000 total are likely to be spread across nearly 160 cities.

South and Southeast Asia, as well as Africa, are poised for growth in the number of new large company headquarter locations. Growth in many of these economies

76 Information and Communications Technology (ICT) Regulation Toolkit on per capita and household expenditure on communications. The ICT Regulation Toolkit is produced jointly by the World Bank's Information of Development Program and the International Telecommunication Union.

has been unprecedented over the past decade, and it may well be that the small number of headquarters to date is a lagging indicator. By 2025, many more cities are likely to host global headquarters and subsidiaries as these economies continue to expand and diversify. We expect about 300 new large companies in the ten fastest-growing South and Southeast Asian cities alone. In addition, we expect an additional 150 in the top ten African cities (nine of which are in sub-Saharan Africa, with cities such as Luanda, Lagos, and Accra contributing significant numbers). In South and Southeast Asia, the number of Fortune Global 500 companies took off from only three in the early 2000s to 12 in 2012. Africa, on the other hand, has not had a company in the Fortune Global 500 since the early 2000s, but by 2025, it is likely to join the rankings. We anticipate that by 2025, the top five cities in Africa will have combined headquarter revenue of just over $1.1 trillion—about the same as the top five Latin American cities in 2010.

In contrast, we do not expect a significantly broadening base of headquarter cities in developed regions. In 2010, just over 100 cities in advanced economies hosted 80 percent of large companies, and this is on course to rise only slightly to about 110 cities by 2025. In these regions, urban centers are relatively mature, and headquarters tend to cluster in established hubs, especially since a higher share of both old and new companies in these regions are in service industries that tend to concentrate near business customers. We estimate that only 52 cities will become hosts to large companies for the first time by 2025, and the general concentration of headquarters in top cities will remain rather stable. At the same time, however, the developed regions account for $27 trillion, or over 35 percent, of global revenue growth partly because they, too, will benefit from tapping into growth in emerging regions.

Box 9. China and Latin America are likely to be the top two locations for new companies

China is the most powerful growth engine for new global companies. Our analysis finds that the China region is likely to give rise to over one-third of the new companies with revenue exceeding $1 billion that we expect to emerge by 2025. More than 40 percent of the new headquarter cities we expect—about 150 cities in all—will be in the China region, where rapid urbanization is propelling significant local GDP growth.

Latin America is on course to be another rising corporate center. Our research finds that it is poised to host 10 percent of the new companies that will emerge by 2025. About 30 new cities are expected to become major headquarters for the first time, with candidates including Campinas and Recife, Brazil; Santo Domingo, Dominican Republic; and Tijuana, Mexico.

Although Latin America's regional economy is much smaller than China's, it is further ahead than the People's Republic in terms of urbanization and share of companies that are in service sectors. More than half of the Latin American population has been urban since 1979, while China did not pass this threshold until 2011; by then, 63 percent of the Latin American population was living in cities.[77] By 2010, 39 percent of large domestic companies in Latin America were engaged in service sectors including retail, banking, and insurance, compared with only 29 percent in the China region. The largest Latin American service companies are Banco do Brasil, headquartered in Brasilia, and América Móvil in Mexico City; both rank in the 20 largest global companies in their respective sectors.

77 World Bank Urban Development data.

□ □ □

The next decade is likely to usher in a dramatic increase in the number of major companies based in emerging regions. Indeed, the rebalancing of the global business landscape is likely to be even faster and more dramatic than the shift of global GDP growth to emerging regions will be. As urban populations expand and incomes continue to rise, emerging regions will see large companies grow and consolidate. Greater numbers of local companies will enter the ranks of the world's true corporate giants, and many new cities will host large companies for the first time. The next chapter explores the implications of this extraordinary growth phase and how it will shape competition, innovation, and market opportunities.

Nagoya
8977 mi Jakarta
St. Petersburg 5720 mi
Giza 7606 mi
436 mi Guangzhou
8710 mi Mumbai
Athens 6925 mi
6499 mi Auckland
Berlin 5759 mi
Pusan
1652 mi Mexico City
Lusaka 10,017 mi
Bordeaux
Split 6386 mi
7406 mi Makati
Kaunas 6230 mi

4. The new company landscape poses strategic challenges and opportunities

Twenty years ago, few would have predicted that the emerging world's share of the Fortune Global 500, having stayed roughly flat near 5 percent between 1980 and 2000, would reach 26 percent by 2013. Similarly, few would have guessed that Beijing-based Lenovo would now be on par with HP as the largest PC vendor by volume in the world after buying IBM's PC business.[78] It would have seemed unlikely that Mumbai's Tata Group would be the largest private-sector industrial employer in the United Kingdom, or that Mexican companies such as Cemex and Bimbo would establish production operations in the United States and become market leaders there.

As large companies from emerging regions continue to expand their reach globally, they will become central actors shaping the global economy. Their investment and expansion decisions—including where to locate their foreign subsidiaries, research and supply chain operations, and sales and marketing operations—will fuel local growth in some regions and reconfigure global transport and communications networks.

Companies from emerging regions serve home markets that are more diverse than the world's mature markets. They have learned to compete for customers at very different income levels, and many have high global ambitions. These organizations know how to operate around sometimes-inadequate physical and social infrastructure, and they have adapted to differing regulatory environments and enforcement practices. In many cases, the process of overcoming these constraints has imbued many newly rising companies with a corporate culture of ingenuity, and today's incumbents may find them to be formidable competitors. Collectively, these companies are also more likely to have a controlling state ownership, which may embrace a broader set of objectives and have a greater willingness to invest for the long term than shareholders and managers of publicly traded companies. All of these factors are likely to shape not just where but *how* businesses operate around the globe.

For both companies and cities, understanding how and where the corporate world is evolving is an important first step to seizing new opportunities and facing the undoubted competitive challenges ahead. By 2025, some of the leading global names in many industries could be companies we have not yet heard of—and some will likely be based in cities that few can currently point to on a map. The emergence of thousands of new large companies over the next 12 years presents an opportunity for cities to strengthen their local economic base and capture part of the next great wave of growth, assuming a role as hubs in global industry networks and supply chains. In this chapter, we discuss some of the imperatives and implications for companies, cities, and policy makers.

78 IDC tracker data between Q2 2012 and Q2 2013, and Gartner data for Q4 2012.

Understanding the global company landscape helps businesses spot opportunities, track competition, and tailor organizations

Most consumer-facing companies are already intensely focused on the rapidly expanding consumer class and the growing pool of skilled people in the labor forces of emerging regions and are putting in place strategies for entering the most attractive markets and seeking ways of tapping that talent. Previous McKinsey and MGI research has addressed how companies can identify pockets of potential within their sectors and gain scale at a reasonable cost.[79] But the looming shift in the global corporate landscape presents business leaders with an entirely distinct set of challenges as it raises new sales opportunities, competitive pressures, and organizational questions.

OPTIMIZE SALES NETWORK ACCORDING TO WHERE BUSINESS CUSTOMERS ARE—AND WILL BE—BASED

For B2B companies, a profound shift in the geography of their markets has just begun. The bulk of their business customers are still based in developed regions, but this is rapidly changing. B2B companies now need to assess how to respond to a much more diverse and dispersed customer base. The shifting landscape requires most B2B companies to rethink and redeploy their sales network to cover a much broader base of business hubs in emerging regions. Yet few companies today have a sufficiently reliable picture of their new potential customer base to say definitively how many sales offices they will need to establish in new cities in order to cover the bulk of their target market—let alone how this is likely to evolve in the future.

Take companies that deal directly with senior managers: they want to target their sales efforts where large company head offices are located. While these are currently more tightly clustered than GDP, the degree of concentration in the location of head offices varies by company size and industry, as we have described. Some investment banking divisions, for example, whose clients are the top management teams of the world's largest global corporations, can focus on just 20 key cities worldwide and still capture the lion's share of their target customers. There are only about 50 global companies with revenue of more than $100 billion; they are headquartered in 32 cities, and a 20-city target could reach over three-quarters of these potential clients. Similarly, 20-city targets could reach half of the head offices of large insurance companies and four out of ten headquarters of leading extractive industry companies. In contrast, a professional services company interested in smaller companies in the $1 billion to $10 billion revenue range would have to focus on 150 cities to cover 75 percent of such potential clients globally.

Optimizing a company's sales force is not a one-off decision. The business landscape is continuously evolving, and it will be a particular challenge to stay abreast of new prospects in rapidly expanding emerging regions. This issue will require continuous monitoring and a nimble response that may include options such as increasing sales force mobility. We expect almost half of all large

79 *Urban world: Cities and the rise of the consuming class,* McKinsey Global Institute, June 2012; *Winning the $30 trillion decathlon: Going for gold in emerging markets,* McKinsey & Company, August 2012.

companies in 2025 to be based outside developed regions. Many of these new entrants will become fast-growing "gazelle" companies that will generate the bulk of new jobs and value added in the global economy—along with large business opportunities for their suppliers and service providers.[80]

UNDERSTAND THE EVOLVING LANDSCAPE FOR BOTH CUSTOMERS AND COMPETITION

Change will continue to gain momentum as thousands of new companies in emerging regions surpass the $1 billion revenue threshold. This pool will include companies that will break into the top ranks in their industries globally. We have already seen the "topple rate" at which companies lose their industry leadership positions double over the last two decades of the last century.[81] Technology is accelerating this trend by condensing the time needed for start-ups and giving new advantages to young, nimble companies that are unburdened by legacy IT systems. Yet today many executives may not be monitoring the companies that could prove to be their main competition over the next decade.

It will no longer be enough for most companies to understand who the global leaders are today: they need to know and track evolving hubs in emerging regions, where more diverse companies, strategies, and approaches are being developed and tested.[82] Business leaders will need to prepare for new sources of innovation. For more cost-conscious consumers from emerging regions, pure technology leadership needs to be combined with low-cost production and suitability for diverse user environments, and the new players that successfully meet these requirements have the potential to disrupt markets.[83]

This competition will not play out exclusively in emerging markets. The most successful new players in the emerging world will set their sights on international expansion, just as earlier generations of companies have done. Incumbent industry leaders across all economies, including mature ones, will find new challenges arriving in their own backyards, and they will need to be prepared to compete not only for global customers but also for talent, capital, and resources.

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80 World Bank research has shown that across a sample of 99 countries, young firms have higher job creation rates and productivity growth than mature firms. See Meghana Ayyagari et al., *Small vs. young firms across the world: Contribution to employment, job creation, and growth,* World Bank Development Research Group policy research working paper number 5631, April 2011. For evidence on the United States, see also Spencer L. Tracy Jr., *Accelerating job creation in America: The promise of high-impact companies,* Corporate Research Board for the SBA Office of Advocacy, July 2011; and Dane Stangler, *High-growth firms and the future of the American economy,* Kauffman Foundation Research Series, March 2010.

81 Topple rate is defined as the rate of change among the leading companies within an industry or market index. See William I. Huyett and S. Patrick Viguerie, "Extreme competition," *The McKinsey Quarterly,* January 2005.

82 Pankaj Ghemawat, "Remapping your strategic mind-set," *The McKinsey Quarterly,* August 2011; Pankaj Ghemawat and Thomas Hout, "Tomorrow's global giants? Not the usual suspects," *Harvard Business Review,* November 2008.

83 For more on how the rising consuming class is influencing global manufacturing, see *Manufacturing the future: The next era of growth and innovation,* McKinsey Global Institute, November 2012.

Earlier McKinsey research suggests that these emerging-market companies are outperforming their developed world competitors, growing at over twice the rate of their developed world competitors on average.[84] This pattern of growth is surprising and should serve as a wake-up call to Western incumbents. Not only are companies based in the emerging world growing twice as fast in their home markets, but they are also expanding more quickly in other emerging markets—and they are even growing at twice the pace of their counterparts based in advanced economies in developed markets (albeit from a low base). Again, this is a pattern that Japanese and South Korean companies followed as they rose to the ranks of global industry leaders.

Emerging-market companies come from distinct regulatory and corporate cultures, and they may operate very differently than Western multinationals. South Korean companies are a case in point. Where US corporations tend to focus on the next quarterly earnings report, many South Korean firms are family owned, enabling them to take a longer view that supports heavier capital investment and to build market share at the expense of short-term quarterly profits. Their R&D is extensive, and it moves quickly due to long working weeks and intense internal competition between R&D teams. South Korean companies are often keen to learn from the approaches and techniques of their global competitors. These companies have access to a hard-working and well-educated workforce, and can benefit from a dominant position in their home market. These attributes can be a potent combination—and one that many other companies across emerging regions are studying. In the coming decades, new challengers will appear from multiple countries, with an ever-widening array of innovative strategies and business models. Today's CEOs need to prepare for competition to come at them from every direction.

Small and medium-sized cities across the emerging world are a particular blind spot for today's executives, but they have the potential to give rise to future competitors. Take, as an example, Hsinchu in northern Taiwan. It may not be well known internationally, but it is the third-largest advanced electronics and high-tech hub in the Greater China region, home to 13 large company headquarters in these industries. Many Westerners are unfamiliar with the city of Binzhou, an emerging manufacturing hub where large company revenue total more than $45 billion, and Nanjing, home to several financial-services companies with collective revenue of just over $17 billion. Similarly, Brazil's Santa Catarina metropolitan district is not quite a household name outside the region, although it has become a regional hub for electronics and vehicle manufacturing, hosting several billion-dollar companies such as WEG Indústrias S.A.

Few industries are immune from the rising competition from companies in emerging cities. Even companies that have always had a local focus, such as operators of residential homes and health-care providers specializing in providing services to retirees, need to keep abreast of the globalization of their competition. In Europe, the mild Mediterranean climate and lower costs attract northern retirees to spend their pensions in Spain or Greece. Many US retirees now consider Mérida, San Miguel de Allende, and several other medium-sized cities in Mexico over more traditional retirement community offerings across the US Sun Belt.

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84 *Winning the $30 trillion decathlon: Going for gold in emerging markets,* McKinsey & Company, August 2012.

BUILD AN ORGANIZATION THAT IS READY FOR THE NEXT GENERATION OF GLOBAL COMPETITION

Given the dynamic change that is unfolding, global companies need to consider whether their organizational models and capabilities are ready to succeed in the new global competitive environment. This means not just having sufficient market intelligence on consumer and customer needs, but also rethinking the structure and location of senior management. A 2012 McKinsey survey found that as companies have globalized, many have determined that the traditional single headquarters model is no longer well suited to managing the increasing complexity facing global businesses.[85] Management teams need to be able to respond to customer needs across time zones every day, and they need to have a global view of the evolving customer and competitor landscape to make the right strategic decisions.

Companies based in developed regions have found ways to increase the global reach of their senior management teams, often simultaneously slimming down and broadening their corporate hearts by making their headquarters leaner and distributing their head office functions across multiple locations. Some have set up secondary headquarters or split head office functions to align more closely with fast-growing markets outside their home territory.[86] Companies including General Electric and Caterpillar Group have divided their corporate centers into two or more locations that share decision making, production, and service leadership. US-based oil and gas company Halliburton created a second headquarters in Dubai, recognizing a clear shift in its customer demand. US technology company Dell set up what the company termed a "functional" headquarters in Singapore, a move that gave the company greater operational and tax efficiency. Switzerland-based ABB, a leader in power and automation technologies, built a Shanghai-based robotics R&D center and production line and shifted the global base of its robotics business from Detroit to Shanghai in response to the higher growth of robotics in Asia. In addition to its traditional headquarters in London, Unilever created a second headquarters for global development in Singapore, which now houses key members of the company's senior leadership team. Academic research has found that broadening corporate centers has allowed managers based in emerging regions to become better connected and more influential as well as incorporating more global perspectives into corporate decision making.[87]

As companies expand into new global markets, having the right leadership in place can spell the difference between success and failure. Executives who came up through the ranks in a company's home office may not have the right skills or perspective to succeed in a different culture or environment, and competition for the best local leadership talent in emerging economies is intensifying.[88]

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85 Toby Gibbs, Suzanne Heywood, and Leigh Weiss, "Organizing for an emerging world," *The McKinsey Quarterly,* June 2012.

86 Many multinationals have established secondary headquarters separate from their traditional headquarters as "new corporate centers" located closer to high-priority markets, with functions from vision-setting and coordination to centers of research excellence.

87 For more details on why multinational corporations relocate their headquarters overseas and emerging trends in managing global business complexity, see Julian Birkinshaw et al., "Why do some multinational corporations relocate their headquarters overseas?" *Strategic Management Journal,* volume 27, issue 7, July 2006. See also Julian Birkinshaw and Suzanne Heywood, "Putting organizational complexity in its place," *McKinsey Quarterly,* May 2010.

88 Pankaj Ghemawat, "Developing global leaders," *McKinsey Quarterly,* June 2012.

Similarly, companies based in emerging regions also need to rethink their organizational structure when expanding into developed markets. For example, expanding or making acquisitions in mature markets has enabled China's consumer electronics company Haier to transform local brands into international brands, expand its talent pool, and build critical capabilities in R&D and other skilled activities. The Chinese PC maker brand Lenovo has been created as part of the process of acquiring IBM PC. Academic research on strategies employed by emerging region multinationals shows a penchant for greenfield operations in other emerging regions and acquisitions in developed regions. For example, Brazil's aerospace company Embraer and China's telecommunications giant Huawei leapfrogged some technological learning stages and accelerated growth by adopting a mergers and acquisition strategy in developed regions; these companies benefited from an infusion of new talent and relevant skill transfers.[89] In these cases, the availability of acquisition targets with distinctive product development and talent were critical decision factors.[90] For others, setting up subsidiaries in mature markets is simply a way to expand in large markets and fuel global growth.

Companies from emerging regions may not opt for the traditional headquarters hubs as they expand. BYD Auto, a subsidiary of one of China's leading high-tech companies, set up its North American headquarters in Los Angeles in 2011, in part because the city put together a lucrative incentive package and in part because California has become both an important market and production center for the budding electric car industry. Nissan, by contrast, chose to relocate its North American regional head office from just outside Los Angeles to Nashville, Tennessee, to be closer to its main production facilities and benefit from lower real estate taxes, lower wages, and the state's jobs tax credit. However, it remains an open question whether we will see more diversity in the subsidiary location choices of emerging-market companies beyond the very concentrated hubs of mature market multinationals.

The rise of new global companies opens new opportunities for nations and cities, but competition is getting tougher

In today's precarious global economic environment, the rapidly rising number of large companies is welcome news for nations and cities looking to create jobs and spur growth. It represents especially important opportunities for emerging regions seeking to reach the next level of economic development and prosperity. Large companies offer skilled jobs, generate local demand (both directly and indirectly through their employees), and help make a region more attractive

89 Ravi Ramamurti, "What have we learned about emerging market MNEs?" in *Emerging multinationals in emerging markets,* Ravi Ramamurti and Jitendra Singh, eds., Cambridge University Press, 2009.

90 Alessia Amighini, Roberta Rabellotti, and Marco Sanfilippo, "*Outward FDI from developing country MNEs as a channel for technological catch-up," Seoul Journal of Economics*, volume 23, number 2, 2010.

for other companies.[91] Yet not all cities or regions will emerge as winners. The impending corporate rebalancing will change the current economic order, as new industry networks evolve and supply chains shift; some jurisdictions will rise in profile while others will see their fortunes fade.

What is clear is that a broadening base of middleweight cities from the emerging world will continue to integrate into global markets. As this unfolds, the competition among cities to host global or regional head offices, production facilities, and other types of operations is likely to intensify. Our research suggests ways that cities, regions, and nations can improve their prospects for incubating home-grown businesses and attracting the head offices and foreign subsidiaries of global companies.

STRENGTHEN THE BASE FOR LOCAL BUSINESSES TO GROW

The headquarters of large companies tend to remain in the locations where the businesses grew organically. Cities with large and diversified local urban economies and favorable business environments create the right conditions for new firms to thrive and grow.

Both the cross-city patterns and time series data discussed in Chapter 3 suggest that local businesses flourish where there is strong economic growth, which is fueled by both expanding populations and rising incomes. Pro-population-growth policies, from land policies that expand housing to improvements in quality-of-life indicators, are important ingredients of urban growth strategies.[92] A rising population generates local demand, enabling local companies to scale up. At the same time, it expands the local labor and talent pool, which is an increasingly critical factor for companies as they choose locations. MGI research has projected that the global economy will experience a shortage of up to 40 million high-skill workers with tertiary degrees by 2020.[93] City leaders can take an active role in strengthening local schools and creating vocational training programs to build the kind of human capital that companies will need. Cities with research universities and access to a pool of new graduates will have an advantage in this new era.

To build a competitive business environment, cities need to focus on creating streamlined, efficient processes for all types of businesses, whether locally or internationally based. In addition to talent, companies look for factors such as good airport facilities, lower corporate taxes, competitive wages, and the presence of other companies in related industries. Once a budding industry cluster reaches critical mass, it can become a magnet for talent, capital, and other large and small companies.

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91 For example, academic research on attracting headquarters to local jurisdictions shows that attracting or retaining the headquarters of a publicly traded firm yields approximately $3 million to $10 million per year in contributions to local non-profits. See David E. Card et al., "The geography of giving: The effect of corporate headquarters on local charities," *Journal of Public Economics,* volume 94, issue 3–4, April 2010.

92 MGI research has shown that, even within the United States, differences in population growth rates explain almost all GDP growth differences across cities. See *Urban America: US cities in the global economy,* McKinsey Global Institute, April 2012.

93 *The world at work: Jobs, pay, and skills for 3.5 billion people,* McKinsey Global Institute, June 2012. On China, see also *The $250 billion question: Can China close the skills gap?* McKinsey & Company, May 2013.

Rising prosperity in Asia, Latin America, and Africa will create new business hubs. Companies in a wide range of industries—from engineering firms to consumer goods suppliers—are already tapping into growth in these regions. Those urban centers that build the right physical infrastructure (from airports and ports to broadband coverage), business connections (including industrial value chains), and personal connections will be able to capitalize on economic growth in their broader regions.

KNOW THYSELF AND OPTIMIZE APPEAL FOR GLOBAL COMPANIES

Beyond cultivating the growth of local businesses, many forward-looking cities and nations want to attract regional head offices, production facilities, and logistical and support functions as global companies, both old and new, expand internationally. This includes welcoming existing companies that are looking to relocate their head offices—an infrequent but not unknown occurrence, with larger and younger companies more likely to undertake such a move (see Box 10, "How often do companies move their head office locations?").[94] Cities that are already hubs for existing headquarters are likely to be in a better position to attract relocating head offices.

Yet the more promising avenue for most cities is to attract subsidiaries. The big new opportunity in the coming decade will be to attract the regional head offices of rising emerging region multinationals as thousands of them expand. These moves are a moment when companies can exercise real choice in locations—and some entrepreneurial mayors are positioning their cities to seize these openings. China is without a doubt the most powerful growth engine for new global companies, and now is the time for forward-thinking cities to build their reputations among Chinese business leaders. London's mayor, Boris Johnson, for example, signed a $1.6 billion deal with a property developer to turn the Royal Albert Dock into a Chinese business district, while Chicago's then-mayor, Richard Daley, launched a campaign to establish Chicago as the most China-friendly city in the United States.

The cities that stand out for their success in attracting large global companies have done so because they understand what businesses are looking for and what makes their location competitive. Different types of businesses will have different criteria, and each city has unique endowments, so there is no single blueprint for a successful business attraction strategy that can apply across all cities or nations. Hence merely casting a wide net may prove to be ineffective; cities should make realistic decisions to concentrate on industries and steps in the value chain that match well with their particular strengths. Their representatives need to develop concise, fact-based, and well-honed marketing messages that communicate these strengths clearly.

94 Vanessa Strauss-Kahn and Xavier Vives, *Why and where do headquarters move?* Centre for Economic Policy Research discussion paper number 5070, May 2005. This paper analyzes decisions on the location of headquarters in the United States between 1996 and 2001 using a unique firm-level data sample of 30,000 US headquarters. The authors found that the rate of relocation is significant at 5 percent a year.

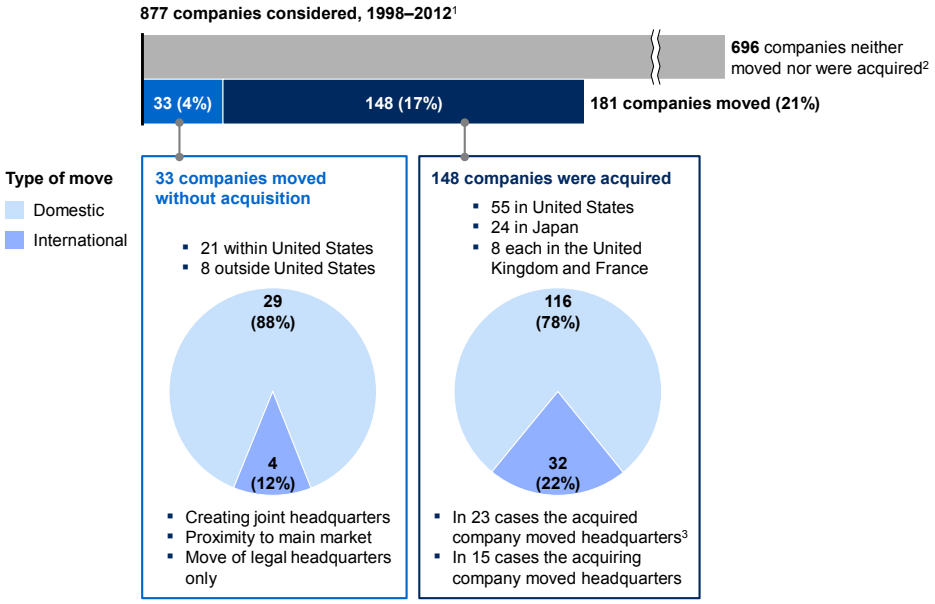
Box 10. How often do companies move their head office locations?

To assess how often companies move their headquarters, we looked at the changes among Fortune Global 500 companies.[95] Between 1998 and 2012, 21 percent of companies on the list changed their head office locations (Exhibit 29). Most of the moves—about 148 in all—occurred as the result of a merger or acquisition, events that allow companies a choice of where to base their new business. Domestic mergers were over three times as frequent as international ones, although international acquisitions were the primary reason for moving head offices abroad. Acquisitions were most frequent among US companies (55 domestic mergers took place within the United States, 24 in Japan, and eight each in the United Kingdom and France).

Exhibit 29

Between 1998 and 2012, 21 percent of the Fortune Global 500 moved their global headquarters

Number of companies (%)



1 All companies in Fortune Global 500 in 1998, 2000, 2002, 2004, 2006, 2008, 2010, or 2012.
2 Includes 25 companies that moved HQ within the same city.
3 Includes six companies that moved domestically and were then acquired.
NOTE: Numbers may not sum due to rounding.
SOURCE: McKinsey Global Institute analysis

An additional 33 companies moved their head offices for reasons other than a merger or acquisition. These moves largely took place within the same country; only a small number of headquarters moved to another country in the absence of a merger. When companies have moved their head offices abroad, it has primarily been for tax reasons (for example, IKEA's move from Sweden to the Netherlands) or to be closer to important markets (for example, Halliburton's move to Dubai).[96]

Of the moves that have taken place without an acquisition, about 70 percent have been within the United States. The reasons for moving a head office domestically are diverse. For example, among the reasons for Boeing to move from Seattle to Chicago were superior airport facilities and an incentives package offered by the city.[97] Home builder PulteGroup relocated from Detroit to Atlanta because of attractive tax incentives and proximity to its largest markets, in the Southeast and Florida.[98] In addition, AstraZeneca has announced its plans to move to Cambridge, United Kingdom, for proximity to the university city's world-class life sciences hub.[99]

95 We excluded address changes within the same urban region in the analysis. All reported changes reflect movements between cities or nations.

96 For IKEA, see, for example, "Flat-pack accounting," *The Economist*, May 2006; http://www.halliburton.com/en-US/.

97 "Inside Boeing's big move," *Harvard Business Review,* October 2001.

98 "Pulte's reasons for relocating: Customers, incentives," *Wall Street Journal* Developments blog, May 31, 2013.

99 *AstraZeneca selects location for new global R&D centre and corporate headquarters in Cambridge, UK*, AstraZeneca press release, June 18, 2013.

Some cities have made targeted investments in key enablers for the private sector, including infrastructure and skills, and offer companies end-to-end services. Dubai chose to invest huge amounts in infrastructure in a bid to transform itself into a business and tourism hub, activities that today account for 25 percent of its annual GDP and 20 percent of FDI in the entire United Arab Emirates.[100] Having established a low 12.5 percent corporation tax rate for manufacturers to make the business environment competitive, Ireland used a highly proactive approach to attract companies.[101]

For local leaders, a good starting point is to understand how companies make their location choices, and where and why their city faces challenges in the course of that process. Many companies use a "funnel" approach when they are selecting the location of a new subsidiary or production facility, and a city that wants to attract that company needs to know how it performs in the various hurdles throughout that process.

Most new location choices start when a company decides that it wants to expand in a specific geography. The typical first step is to identify a long list of potential host locations. This list almost always includes cities with an established reputation in a specific area or industry; once an industry hub reaches a critical mass, it tends to gain momentum. For example, in the United States, Boston and Silicon Valley have high profiles among high-tech and research-intensive companies and industries because the presence of major universities creates a favorable environment for research and development. Houston and Calgary have benefited from the fact that they are already strong and established oil industry hubs. Atlanta has built a reputation in logistics that should carry into the future.

Academic research on the location decisions of multinationals has found that inadequate knowledge of a region causes investors to underestimate opportunities and overestimate risks, thus pushing such locations out of the front ranks of contenders in the decision-making process.[102] If a country or city does not make it into a company's long list, the imperative is to improve its visibility and reputation nationally or internationally, through either broad-based marketing or more proactively courting large anchor companies that are known to shape location decisions for their suppliers.[103]

100 *How to make a city great,* McKinsey Cities Special Initiative, 2013. MGI estimates that cities will need annual physical capital investment to more than double by 2025; see *Urban world: Cities and the rise of the consuming class,* McKinsey Global Institute, June 2012.

101 *Ireland corporation tax strategy and FDI*, Republic of Ireland Department of Finance, 2013.

102 Emmanuel Cleeve, "How effective are fiscal incentives to attract FDI to sub-Saharan Africa?" *Journal of Developing Areas*, volume 42, number 1, Fall 2008.

103 A good example of the latter approach is San Jose, Costa Rica, which specifically targeted Intel in a bold attempt through the then-struggling Costa Rican Investment Promotion Agency (CINDE). In 2012, Intel celebrated 15 years in the city, having invested just under $1 billion since 1997, with 2,800 employees and $2 billion in current average annual product exports. See Michael E. Porter and Niels W. Ketelhohn, *Building a cluster: Electronics and information technology in Costa Rica*, Harvard Business School case study number 703–422, 2003.

The second step for companies is to rank the long list of possible locations on measurable criteria that matter for that particular business. These include local market potential, wages and other costs, talent pool, logistics and other infrastructure, regulatory factors, risk, and others, with varying weights for each depending on the particular business needs. The quantitative performance of different locations across these metrics is typically used to narrow down the long list into the top two to four locations.

If a city makes the long list but not the short list, it is important to understand what factors are dragging down that city's overall ranking and improve those that can be influenced. This involves creating a realistic fact base on how a city ranks relative to its competitors, and then focusing on areas that can be improved, whether that entails cutting red tape or modernizing infrastructure. Toronto's Board of Trade, for example, has formalized this process by tracking the city's evolving strengths and weaknesses against 24 other cities in an annual report.[104]

The last step in the funnel process for companies involves picking the winning location from the pre-screened short list. It is often done by a more senior manager and based on more qualitative and even personal factors. Cities that are more likely to be picked at this last step are those that the managers would like to visit frequently, where their families would like to live, where they believe their children can get a good education, and where the cultural or culinary amenities are deemed more attractive. The high concentration of mature industry multinationals in few global cities—from Singapore to Sydney and Prague—indicates that livability matters particularly in the choice of regional head offices. This entails a wide variety of quality-of-life factors, from public safety to green spaces, from quality housing to public transit.

This last step also hinges on the impression conveyed by city representatives. As competition for hosting multinational company head offices and plants has intensified, Singapore and Switzerland have both made attracting multinational subsidiaries an explicit part of their economic development strategies. They have built professional inward investment agencies that "make things happen for FDI," to borrow the motto of Singapore's Economic Development Board (see Box 11, "Singapore's approach to attracting foreign subsidiaries"). Establishing a reputation for responsiveness and helpfulness during the location choice process can build confidence for longer-term productive collaboration with the local government and improve the odds of winning in this last step of the process.

104 *Toronto as a global city: Scorecard on prosperity—2013,* Toronto Region Board of Trade, 2013. Chicago has also pursued this kind of benchmarking exercise, first conducting a data-driven inventory of the city's assets and then following up with hundreds of business and stakeholder interviews to build this fact base into strategy; see *Urban America: US cities in the global economy,* McKinsey Global Institute, April 2012. Another example is Switzerland's development of a strategy for attracting Asian subsidiaries; see *Asian headquarters in Europe: A strategy for Switzerland,* OSEC Business Network, Swiss-American Chamber of Commerce, and McKinsey & Company, November 2008.

Box 11. Singapore's approach to attracting foreign subsidiaries

Singapore has focused on creating a highly attractive business environment and proactively courting potential investors, efforts spearheaded by its Economic Development Board (EDB). The EDB, established in 1961, started out by rigorously identifying areas of strength and weakness and using this assessment to establish national industrial policy priorities—including removing barriers to company expansion and boosting investment aimed at cultivating new businesses. Early on, the EDB focused its efforts on attracting the relatively low-skill, labor-intensive operations of multinational companies. It used a systematic approach of identifying potential investor companies, cultivating relationships with those companies, seeking to understand their decision processes, and then developing tailored packages to attract them to Singapore. Over time, the focus has shifted to more skilled manufacturing and services at the higher-value-added end of the spectrum. The efforts to promote Singapore have become increasingly sophisticated, and may include tax incentives or grants. The EDB has built a highly effective organization with a customer-focused, high-performance culture and 19 offices overseas; it recruits top talent and offers compensation that reflects the high priority Singapore places on these efforts.

Today, a wide range of foreign subsidiaries with total revenue of $631 billion are based in Singapore, making it the location of choice for multinationals in emerging Asia. These include the regional headquarters of oil majors such as Exxon and Shell, auto manufacturer Toyota, and leading players from diverse industries including Pfizer, PayPal, and Philips Electronics. Singapore's success in becoming an international business hub has been accompanied by strong real GDP growth that averaged 8 percent between 1960 and 2012. In fact, Singapore today has the fourth-highest per capita GDP in the world.

In a world of limited public resources, cities must pursue effective strategies to incubate home-grown businesses as well as to attract new ones. They therefore need to take a realistic view of how valuable a company headquarters, subsidiary, or other operation is likely to be for their local economy. The presence of large company headquarters is likely to matter less for city revenue or local employment than is sometimes thought. And even though companies report higher profits in the jurisdictions where they are headquartered, both academic research and company case studies have shown that tax revenue paid by global companies is increasingly decoupled from their operational and head office footprint.[105] For this reason, policy makers should carefully assess any incentives they offer to a company to locate in their jurisdiction against realistic expectations of the future economic benefits the company is likely to bring.[106]

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105 See, for example, David Neumark and Jed Kolko, "Changes in the location of employment and ownership: Evidence from California," *Journal of Regional Science,* volume 48, issue 4, October 2008. The authors show that the proportion of firm operations in the same region as the headquarters location is declining, based on case studies of companies with headquarters or sites in California.

106 The benefits of hosting the headquarters of a large company are likely to vary for different cities. For example, a new head office is likely to benefit existing businesses in the service sector rather than those in manufacturing. See, among others, Teresa Garcia-Milà and Therese McGuire, *Tax incentives and the city,* Brookings-Wharton Papers on Urban Affairs, 2002.

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The rise of large companies from the emerging world is likely to have far-reaching implications. First and foremost, it will heighten competitive pressures for incumbent companies and for the cities that would like to land their headquarters. But while this new level of competition will pose challenges, it is not a zero-sum game. It will open up possibilities for economic growth in new corners of the globe. Many of these next-generation companies, having honed their corporate cultures in diverse local markets, have the potential to change the very nature of innovation and business strategy. A wide range of industries may benefit from productivity advances that originate with these up-and-coming firms. Above all, their growth is likely to provide the global economy with a much-needed injection of dynamism and new ideas.

Technical appendix

Available company and city data remain limited and fragmented across the globe. To better understand the current landscape, we draw on a novel database that contains all large companies with annual revenue of $1 billion or more, captured at their headquarters location. MGI CompanyScope combines information from a broad range of sources, including global, country, and regional company rankings; commercial company databases; and internal knowledge that leverages McKinsey's global network. In addition, it distinguishes and tracks large foreign subsidiaries with revenue exceeding $1 billion. To analyze current patterns, MGI also introduces a new measure of the relative concentration of company revenue in a given region relative to GDP: the Headquarters Density (HQD) index.

This appendix first describes the sources and methodology used in building the MGI CompanyScope database, including how the data have been combined with MGI's Cityscope database. It then provides a description of the HQD and concludes with the methodology used to build a future scenario of the global company landscape that we expect to see by 2025. We caution, however, that any projections of GDP, per capita GDP, number of large companies headquartered in a given area, and global revenue associated with companies are subject to uncertainty. Decision makers need to test the robustness of their decisions against a broader set of plausible scenarios and their own knowledge of particular industries.

The MGI CompanyScope database

MGI CompanyScope captures all global companies with revenue of $1 billion or more in 2010 or the closest available year, mapped to their global headquarters location. It consists of around 8,000 companies, including publicly listed and privately owned companies, which can be state-owned or not. Only parent companies are included, so rather than separately counting Porsche and Audi, for example, only their parent company, Volkswagen, is included. MGI CompanyScope considers company locations to be the geography where key coordination functions are physically situated, if that is different from the legally registered location. For example, Ternium S.A. is captured in Argentina, where its board is located, and not in Luxembourg, where its headquarters is legally registered.

In addition, our database captures and distinguishes some 2,300 large foreign subsidiaries of multinational companies, if their local revenue was larger than $1 billion in 2010 or the closest available year. We classify entities as subsidiaries if another company within the database directly or indirectly holds an ownership stake of more than 50 percent. For example, Toyota Argentina, located in Buenos Aires, is categorized as a subsidiary. Its Japanese parent company, Toyota, is categorized as a large company, mapped to its global headquarters in Nagoya.

The database is built using a combination of top-down and bottom-up approaches to create the list of relevant companies. We rely on global company rankings such as the Forbes Global 2000, the Fortune Global 500, the Global 5000 Companies database, *Financial Times* non-public top companies, and a number of global industry rankings. In addition, we leverage a large number of country- and region-specific company rankings that usually capture smaller companies and cover private companies that are often not included in global rankings.

After identifying the relevant companies, we have consulted sources such as Hoover's, S&P's Capital IQ, and OneSource to collect information on each company's consolidated revenue, its geographic location, the industries in which it operates, whether the company is publicly traded, and whether the controlling shareholder is a government. In addition, a company is classified as a holding company if the firm does not produce goods or services itself but its purpose is to own shares of other companies or subsidiaries. We then combine, compare, and revise data from the various sources to create the databases. By treating global headquarters, foreign subsidiaries, and holding companies separately, we avoid double-counting revenue and can analyze the different types of entities separately.

When revenue for the year 2010 for a given company is not available, we consider revenue of the closest available year to avoid dropping the company from the database. We use global consolidated revenue for most companies; for financial institutions, we define revenue as interest income plus non-interest income (revenue thus includes interest expenses). We choose this definition to make our data comparable with the definition of revenue in other industries, where the cost of goods sold and similar expenses are below the revenue line. For some asset-management companies that have no available revenue information, we approximate revenue to be 2 percent of the total value of managed assets.

A unique feature of the database is that each company is mapped to the closest city in the MGI Cityscope database. Cityscope contains detailed demographic information and economic forecasts at the city level for the world's 2,600 cities that have 150,000 or more inhabitants in developed regions and 200,000 or more citizens in emerging regions as of 2010. In cases where companies are located in cities that are not included in the Cityscope database because they do not meet the population threshold, we have mapped the company to the closest metropolitan area.[107] Whenever we distinguish between developed and emerging regions throughout the report, we aggregate cities into four developed and six emerging regions (Exhibit A1).

Exhibit A1

We distinguish between four developed and six emerging regions

Developed regions

Australasia
- Australia
- New Zealand

Northeast Asia
- Japan
- Republic of Korea (South Korea)

United States and Canada
- United States of America
- Canada

Western Europe
- Austria
- Belgium
- Denmark
- Finland
- France
- Germany
- Greece
- Iceland
- Ireland
- Italy
- Luxembourg
- Netherlands
- Norway
- Portugal
- Spain
- Sweden
- Switzerland
- United Kingdom

Emerging regions

Africa and Middle East
- Algeria
- Angola
- Benin
- Botswana
- Burkina Faso
- Burundi
- Cameroon
- Cape Verde
- Central African Republic
- Chad
- Comoros
- Congo
- Côte d'Ivoire
- Democratic Republic of the Congo
- Djibouti
- Egypt
- Equatorial Guinea
- Eritrea
- Ethiopia
- Gabon
- Gambia
- Ghana
- Guinea
- Guinea-Bissau
- Jamahiriya
- Kenya
- Lesotho
- Liberia
- Libya
- Madagascar
- Malawi
- Mali
- Mauritania
- Mauritius
- Morocco
- Mozambique
- Namibia
- Niger
- Nigeria
- Rwanda
- Sao Tome & Principe
- Senegal
- Sierra Leone
- Somalia
- South Africa
- Sudan
- Swaziland
- Togo
- Tunisia
- Uganda
- Tanzania
- Zambia
- Zimbabwe
- Bahrain
- Iran
- Iraq
- Israel
- Jordan
- Kuwait
- Lebanon
- Oman
- Qatar
- Saudi Arabia
- Syria
- United Arab Emirates
- Yemen

China region
- China
- Hong Kong SAR
- Macau SAR
- Taiwan

Eastern Europe and Central Asia
- Bulgaria
- Cyprus
- Czech Republic
- Estonia
- Hungary
- Latvia
- Lithuania
- Malta
- Poland
- Romania
- Slovakia
- Slovenia
- Albania
- Armenia
- Azerbaijan
- Belarus
- Bosnia & Herzegovina
- Croatia
- Georgia
- Macedonia
- Moldova
- Russia
- Serbia
- Turkey
- Ukraine
- Kazakhstan
- Kyrgyzstan
- Mongolia
- Tajikistan
- Turkmenistan
- Uzbekistan

South Asia
- Afghanistan
- Bangladesh
- Bhutan
- India
- Maldives
- Nepal
- Pakistan
- Sri Lanka

Southeast Asia
- Brunei Darussalam
- Cambodia
- Fiji
- Indonesia
- Laos
- Malaysia
- Myanmar
- Papua New Guinea
- Philippines
- Samoa
- Singapore
- Solomon Islands
- Thailand
- Timor-Leste
- Tonga
- Vanuatu
- Vietnam

Latin America
- Argentina
- Bolivia
- Brazil
- Chile
- Colombia
- Ecuador
- Guyana
- Mexico
- Paraguay
- Peru
- Suriname
- Uruguay
- Venezuela
- Bahamas
- Barbados
- Belize
- Costa Rica
- Cuba
- Dominican Republic
- El Salvador
- Grenada
- Guatemala
- Haiti
- Honduras
- Jamaica
- Nicaragua
- Panama
- St. Lucia
- St. Vincent & Grenadines
- Trinidad & Tobago

SOURCE: McKinsey Global Institute Cityscope

107 For example, companies in Solwezi, Zambia, are mapped to Lubumbashi, Democratic Republic of the Congo, the closest city.

Among all 8,000 large companies in the database, manufacturers are by far the largest industry group, with just over 30 percent of the total, or 2,600 companies (Exhibit A2). The utilities, transport, and construction sector has 1,270 companies in the database, followed by the wholesale and retail sector, with 1,030. There are only 520 large companies in extractive industries (that is, oil, gas, and mining), but their average revenue of $15.0 billion exceeds that of all other industries. This sector is dominated by a small number of oil majors, mining giants, and huge SOEs; just ten of them have combined revenue of $2.5 trillion. Some 39 percent of all large companies in extractive industries are based in emerging regions. Insurance is another sector represented in the database by a relatively small number of large companies, but with average revenue of $12.4 billion. In other sectors, just over half of the 348 textiles, paper, printing, and furniture manufacturing firms in the database have revenue between $1 billion and $2 billion.

Throughout the report, we categories companies using industry categories from the United Nations' International Standard Industrial Classification of All Economic Activities (ISIC), Revision 3.1 (2002), which provides descriptions of each industry. ISIC classification 3.1, extractive industries, refers to ISIC section C (mining) and division 23 (refining); manufacturing refers to ISIC section D; utilities to section E; construction to section F; and services to sections I (transport, storage, and telecommunication), G (wholesale), H (retail), J (financial intermediation), K (real estate and business activities), M (education), N (health and social services), O (social and personal services), and P (private household services).[108] ISIC sections L (public administration and defense) and Q (extra-territorial organizations and bodies) are not included in the database. Figures for agriculture (section A) are included in manufacturing figures due to the small number of pure agricultural companies with revenue over $1 billion and the link to food manufacturing.

The database shows that for now, most large foreign operations are heavily concentrated in just a few major hubs, and the top locations for global headquarters and foreign subsidiaries are a fairly different set of cities (Exhibit A3). For example, 11 of the leading 25 cities by number of subsidiaries are not in the top 25 by number of global headquarters. Tokyo hosts almost three times as many global headquarters as second-ranked New York, but it ranks only ninth in the list of top locations for large foreign subsidiaries.

Despite our best efforts, we know and acknowledge that there continues to be room for improving the scope and quality of both databases.

108 In some instances, we have further disaggregated industries. In these cases, electrical manufacturing refers to ISIC divisions 29–33 and vehicle manufacturing to divisions 34–35. Other manufacturing refers to all other classifications within section C, which we further break down into basic metals and minerals (divisions 26–28), chemical (divisions 24–25), food (divisions 15–16), and textiles, paper, printing, and furniture (divisions 17–22 and 36–37). Insurance corresponds to division 66, and banking to section J, excluding division 66. Other services corresponds to K, M, N, O, and P, which is further broken down into business services (division 74), computer and R&D (division 72–73), education (division 80), entertainment (division 92), health care (division 85), and real estate and equipment leasing (divisions 70–71). Many companies operate in more than one of these areas. In these cases, we have sought to identify the category that corresponds most closely to each one's principal activity.

Exhibit A2

Manufacturing has the greatest number of large companies, while extractive industries and insurance have the largest revenue per company

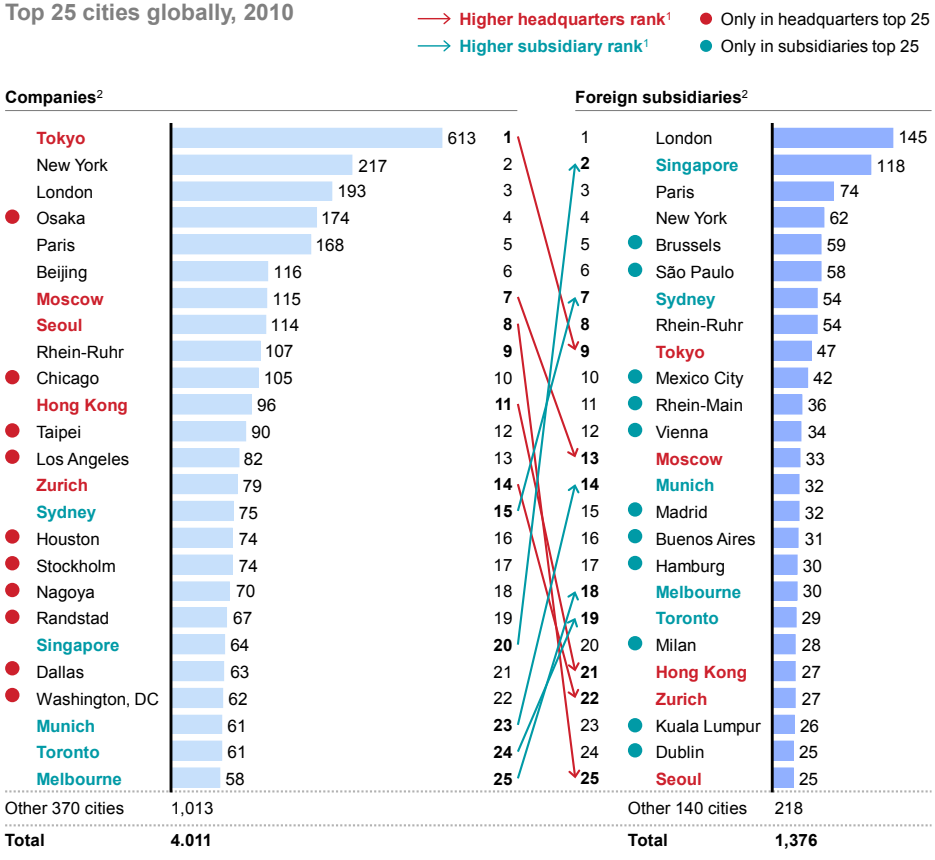
Industry	Global value added $ trillion	Number of companies	Company revenue $ trillion	Average revenue per company $ billion
Other business activities	19.1	1,300	5.7	4.4
Utilities, transport, and construction	8.7	1,267	8.6	6.8
Wholesale and retail	8.4	1,031	6.9	6.7
Other manufacturing	5.9	1,603	9.0	5.6
Electrical and vehicle manufacturing	3.3	995	7.8	7.8
Extractive industries	2.9	524	7.7	14.7
Banking and auxiliary services	2.9	849	6.4	7.5
Insurance	1.0	372	4.6	12.4
Total	**52.2**[1]	**7,941**	**56.6**	**7.1**

1 Global Insight data include 75 countries and exclude $6.9 billion value added from public administration, agriculture, and defense.
NOTE: Numbers may not sum due to rounding.
SOURCE: IHS Global Insight; MGI CompanyScope; McKinsey Global Institute analysis

Exhibit A3

Leading cities for global headquarters differ from the locations of choice for foreign subsidiaries

Top 25 cities globally, 2010



Other 370 cities	1,013	Other 140 cities	218
Total	**4.011**	**Total**	**1,376**

1 By over three places.
2 Companies with revenue of $1 billion or more in 2010 or closest available year.
SOURCE: McKinsey Large Companies Database; McKinsey Global Institute analysis

The Headquarters Density (HQD) index

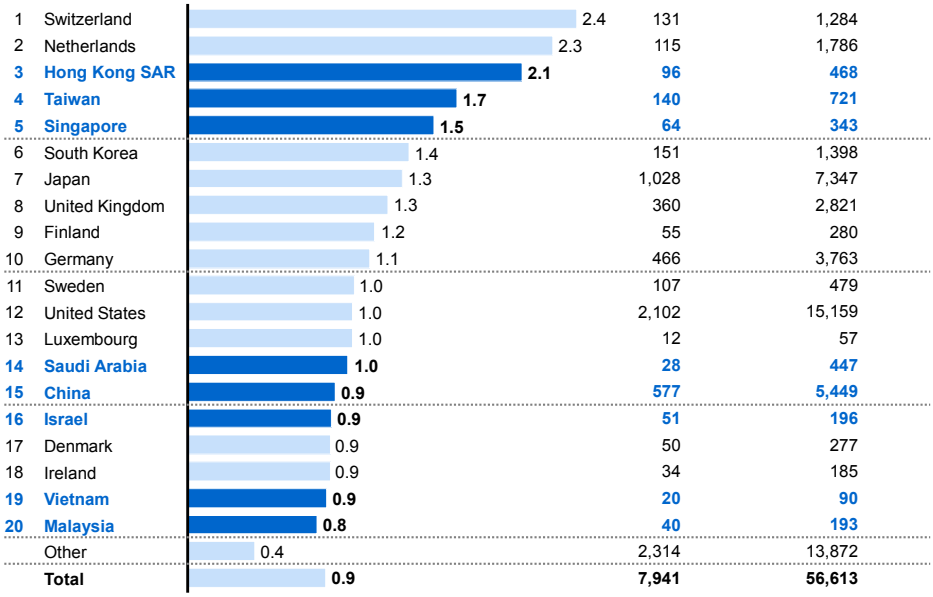
MGI introduces the Headquarters Density (HQD) index to provide an indicator of the relative presence of large companies in different countries and cities. HQD is defined as the ratio of the sum of global consolidated revenue of all large companies headquartered in a jurisdiction to the GDP of the same geography. For example, the HQD for Japan is calculated as the sum of revenue that all large companies headquartered in Japan earn domestically and abroad relative to the GDP of Japan ($7.3 trillion in revenue to $5.5 trillion in GDP leads to an HQD of 1.3). HQD is used as an index to measure the relative weight of a location in the global large company landscape vis-à-vis its GDP (Exhibit A4).

Exhibit A4

HQD provides a way of comparing success in building an attractive environment for large companies

Top 20 countries by HQD, 2010[1]

Emerging regions


HQD
Number of large companies
Global revenue
$ billion
1 Switzerland 2.4 131 1,284
2 Netherlands 2.3 115 1,786
3 Hong Kong SAR 2.1 96 468
4 Taiwan 1.7 140 721
5 Singapore 1.5 64 343
6 South Korea 1.4 151 1,398
7 Japan 1.3 1,028 7,347
8 United Kingdom 1.3 360 2,821
9 Finland 1.2 55 280
10 Germany 1.1 466 3,763
11 Sweden 1.0 107 479
12 United States 1.0 2,102 15,159
13 Luxembourg 1.0 12 57
14 Saudi Arabia 1.0 28 447
15 China 0.9 577 5,449
16 Israel 0.9 51 196
17 Denmark 0.9 50 277
18 Ireland 0.9 34 185
19 Vietnam 0.9 20 90
20 Malaysia 0.8 40 193
Other 0.4 2,314 13,872
Total 0.9 7,941 56,613

1 The Headquarters Density (HQD) index is defined as the ratio of global revenue of all companies with total revenue of $1 billion or more that are headquartered in a given country to that country's GDP in 2010. Includes only countries with more than ten large company headquarters.

SOURCE: MGI CompanyScope; McKinsey Global Institute analysis

HQD enables us to compare the density of global consolidated revenue of large companies based in the nation relative to the size of the economy and to make comparisons between regions. It does not measure all business activity within a region, as it does not include revenue of smaller companies or local operations of businesses headquartered elsewhere. And it does not indicate the share of large companies in the economy, as revenue of companies includes not just their value added (that is, contribution to GDP) but also the value of purchased inputs, both in the home economy and globally. HQD does, however, express the relative weight of large companies based in a given economy.

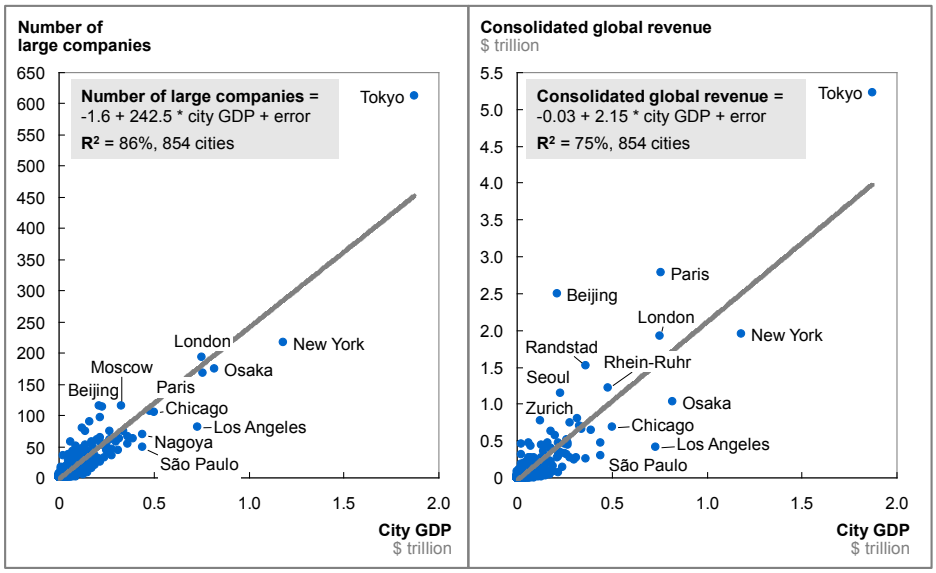
Methodology for a future scenario of the global large company landscape

Our estimates of the number of large companies and their collective revenue by city are based on the expected GDP growth of each city and the patterns of large company presence across cities of different sizes today. On a city level, we observe a clear relationship between the number of large companies, their revenue, and city GDP in 2010 (Exhibit A5).[109]

Exhibit A5

On a city level, GDP is the major driver of the number of large companies and their corresponding revenue

2010



SOURCE: MGI CompanyScope; McKinsey Global Institute analysis

Our methodology builds on the observation that city GDP growth—an indication of local market size—is linked to the aggregated development of the pool of large companies located in a city (which changes as new companies pass the $1 billion threshold, as others fall below it, and as companies move to a city or away from it). Our city-specific GDP growth rates from 2010 to 2025 are based on the average of country GDP growth projections from IHS Global Insight, the Economist Intelligence Unit, Oxford Economics, and McKinsey's Global Growth Model in combination with region-specific approaches that reflect whether past GDP growth data were available for the city or not.[110]

109 Even when leaving out the ten cities with the greatest number of companies or the highest large company revenue from our regressions to check the robustness of the results, the relationship between city GDP and the number of large companies remains strong (R^2 is 70 percent), as does the relationship between city GDP and total revenue (R^2 is 59 percent).

110 In our base scenario, the real compound annual growth rates for GDP over the period 2010 to 2025 for selected countries and regions is 6.9 percent in China, 7.6 percent in India, 2.5 percent in the United States, 1.5 percent in Western Europe, and 3.9 percent in Latin America. We use GDP measured in 2010 dollars at the predicted real exchange rate. We predict the RER for 2025 from differences in per capita GDP growth rates. For further details on the methodology of city GDP projections into 2025 and real exchange-rate adjustments, see *Urban world: Cities and the rise of the consuming class,* McKinsey Global Institute, June 2012.

Many variables can affect future GDP growth, of course, and in recent months, emerging economies have experienced volatility and slowing growth. We conducted three different scenarios to assess the robustness of the projections: (1) slower real GDP growth in China and India (lowered by 2 percentage points, to 4.9 percent growth in China and 5.6 percent in India); (2) slower real GDP growth globally (2 percentage points lower in China and India, 1 percentage point lower in other emerging regions, and 0.5 percentage points lower in developed regions); and (3) faster real global growth (1 percentage point faster in all emerging regions, including China and India, and 0.5 percentage point faster in developed regions).

The central findings on the patterns of large company growth hold across all three macroeconomic scenarios, although global growth and individual country and city projections naturally vary. By 2025, the projected share of large companies based in emerging regions remains above 40 percent in all scenarios, up from 27 percent in 2010; the projected share of Fortune Global 500 companies from emerging regions ranges between 39 percent and 50 percent, up from 17 percent in 2010. Given that emerging regions currently have a significantly smaller base of large companies relative to their GDP, these projections reflect the fact that they have room for catch-up growth.

For our estimates of the number of large companies and their consolidated revenue in 2025, we first calculate the average number of companies and their revenue across cities within the same narrow GDP tier in 2010. Looking at projected city GDP for 2025 (measured in exchange-rate-adjusted constant 2010 dollars), we then associate each city with the number of companies a city within the same GDP tier had, on a global average, in 2010. Thus, no assumptions are needed for this approach on the functional form of the relationship between city GDP and the number of companies and their revenue. We then apply a city-specific adjustment to account for the degree to which a given city over- or underperformed relative to this tier average in 2010. This implies that cities with a disproportionate number of companies in 2010 continue to be more successful than the average city with a comparable GDP in 2025.

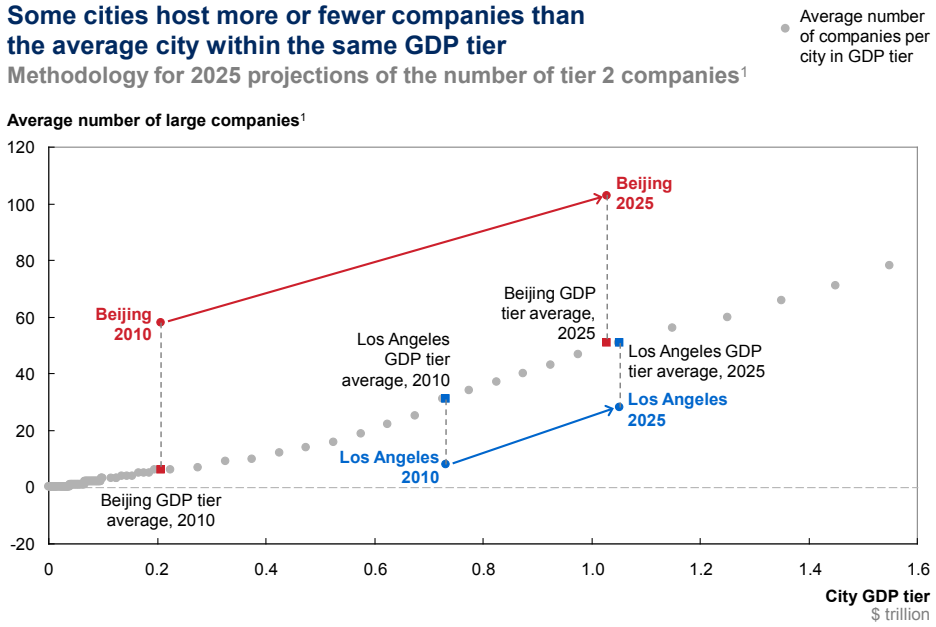
We group cities into 140 narrow GDP tiers and calculate the global average of the number of large companies and their revenue for that tier. We also categorize all large companies into three groups based on their total revenue. In terms of company groups, we distinguish between tier 1 companies with revenue between $1 billion and $10 billion, tier 2 companies with revenue over $10 billion and up to $100 billion, and tier 3 companies with revenue exceeding $100 billion. For example, cities in Beijing's GDP tier (with GDP between $0.20 trillion and $0.25 trillion) host six tier 2 companies on average, but Beijing actually hosted 58 tier 2 companies in 2010. Los Angeles, in contrast, hosted eight tier 2 companies in 2010, 23 companies below the average city in its GDP range of $0.70 trillion to $0.75 trillion.

By 2025, Beijing and Los Angeles both are expected to have GDP between $1.0 trillion and $1.1 trillion (measured in constant 2010 dollars and adjusted for real exchange rates). An average city within this GDP tier hosted 51 tier 2 companies in 2010. Since Beijing had 52 more of these companies than its peers in 2010, we also expect it to host more companies than its tier average by 2025. Its projected number of tier 2 companies therefore is 103. For Los Angeles, the projected number of tier 2 companies in 2025 is 28 (Exhibit A6). We follow a similar logic for tier 1 and tier 3 companies.

Exhibit A6

Some cities host more or fewer companies than the average city within the same GDP tier

Methodology for 2025 projections of the number of tier 2 companies[1]



1 Only companies with between $10 billion and $100 billion in revenue in 2010 or closest available year captured at global headquarters location.

SOURCE: MGI CompanyScope; McKinsey Global Institute analysis

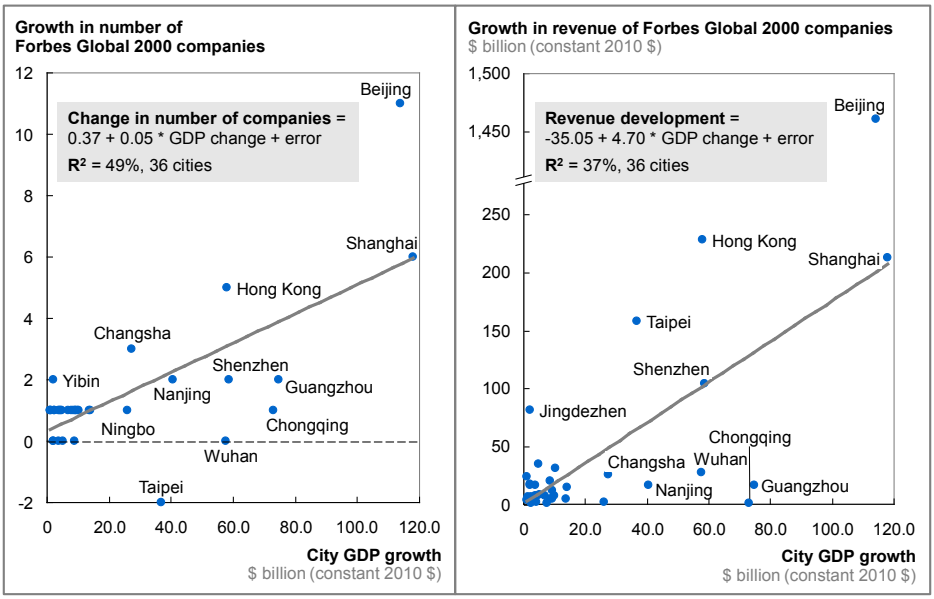
The projection of large company revenue is based on an equivalent methodology, starting from GDP growth of the headquarters city. Again, we use the same grouping of cities by GDP tier and companies by revenue tier. In addition to the forecasting methodology for the number of companies on a city level, however, the revenue forecast on a city level is complemented by a revenue multiplier adjustment to account for the evidence that revenue grows faster than GDP.
It is not possible to project the growth of individual companies or cities with precision, of course, given the number of variables at work. Individual cities will deviate, some significantly, from the average patterns, which is why we aggregate our findings on a regional level to provide a broad global view of the direction of expected change.

Available past time series data suggest that city GDP growth over time is associated with the development of the company landscape on a city level. For example, across Chinese cities, the regression line of a model using the change in GDP between 2006 and 2012 across cities as an explanatory variable approximates the real number of Chinese firms ranked among the 2,000 biggest companies worldwide relatively well with an R^2 of 36 percent (Exhibit A7).

Exhibit A7

The number of large companies in China has grown with city GDP

Forbes Global 2000 companies and city GDP in the China region, 2006–12



SOURCE: MGI CompanyScope; McKinsey Global Institute analysis

Revenue of large companies, historically, has grown even faster than the GDP of their headquarters city. In the China region, for example, the 61 largest companies are spread across 14 cities. For an average city, revenue increased at an average annual rate of 25 percent between 2006 and 2012, while the GDP of an average home city grew at an average annual rate of 8 percent. Here, 40 percent of the variation in large company revenue increase across cities is explained by the increase in city GDP.[111] In the United States, the top 100 companies by revenue are located across 43 cities. On average, the total revenue per city increased at an average annual rate of 4 percent between 2004 and 2010, while the GDP of their home cities has increased at an average annual rate of less than 1 percent for an average city. One-fifth of the variation in large company revenue change across cities is explained by the change in city GDP.[112]

111 For the China region, revenue growth rates are based on the 61 domestic companies that have been in the Forbes Global 2000 between 2006 and 2012. City GDP growth explains 40 percent of the variation in revenue growth across cities.

112 Evidence for the United States is based on the 103 largest companies on the New York Stock Exchange in 2010 that existed in 2004. The change in a city's GDP over six years can explain 19 percent of the variation in the change in revenue of all companies in the city.

Yet these examples of rapid growth in revenue consider only existing companies. We expect revenue of all companies headquartered in a city to grow even faster as the pool of large companies also expands. In particular, as companies continue to globalize and the sophistication of production increases as countries' wealth rises, this translates into revenue growing faster than GDP. Based on the observation that countries with higher per capita GDP have a higher HQD, we assume that, as per capita GDP of countries grows, so does the extent to which the revenue of all large companies headquartered in a country grows faster than the country's GDP.

Our 2025 estimates for the number of large companies are relatively conservative as we assume the historically observed relationship between city GDP and the number of companies by city will hold in the future. This is a conservative assumption. In China, for example, historical data show that the number of companies among the top 2,000 companies globally grew at an average annual rate of 13 percent between 2006 and 2012, a rate that was 60 percent faster than even the rapid 11 percent GDP growth of an average home city.[113]

As Chapter 1 discusses, HQD differs between countries depending on the country's wealth, measured by per capita GDP. In fact, regression analysis confirms that one-third of the variation in the revenue-over-GDP ratio across countries is associated with the per capita GDP variation across all industries (except for extractive industries).[114] Assuming that this relationship continues to hold, we compute country revenue multipliers to account for the fact that as country per capita GDP increases, company revenue grows faster than GDP. We then apply the estimated country revenue multipliers to the revenue estimates stemming from city GDP projections.

For example, an expected per capita GDP increase from $8,000 in 2010 to $21,000 in 2025 in mainland China and from $47,000 to $60,000 in the United States translates into an estimated revenue multiplier of 1.3 for both countries. For Beijing and Los Angeles, the expected revenue of tier 2 companies are $3,979 billion and $876 billion, respectively, based on the expected city GDP increase combined with the revenue multiplier adjustment.

Given their impending GDP increases, more than 330 cities are expected to host a large company for the first time by 2025. In 2010, cities with a GDP of between $9 billion and $14 billion, on average, hosted one large company headquarters. However, depending on the geographical region, the fraction of cities that actually host at least one large company varies (Exhibit A8). In addition, as per capita GDP rises, we expect this fraction to increase. Regression analysis shows that regions with $1,000 higher per capita GDP in 2010 have, on average, a 1 percentage point higher share of large company head offices among the cities with a GDP of between $9 billion and $14 billion. This methodology implies that out of the

113 For the China region, the number of companies in the Forbes Global 2000 increased from 105 to 223 between 2006 and 2012, translating into a compound average growth rate of 13 percent.

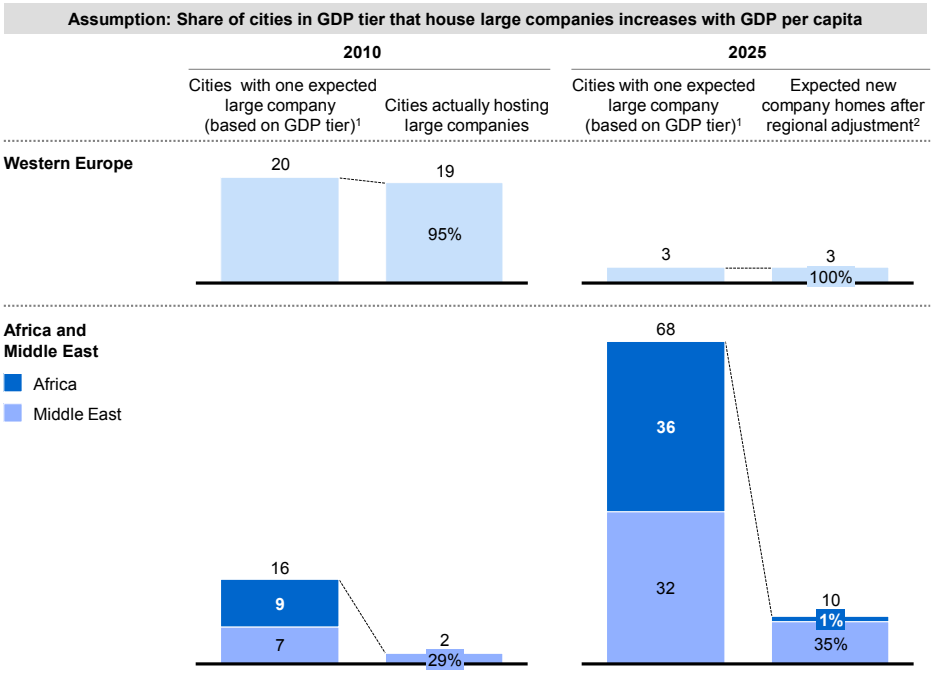
114 Regression analysis shows that, on average, the revenue-over-GDP ratio is 0.2 higher in countries with $10,000 higher per capita GDP at purchasing power parity across all industries but extractive. Across extractive industries within countries, there is no significant relationship between the revenue-to-GDP ratio and per capita GDP. There is no significant relationship between the revenue-to-GDP ratio and per capita GDP on a city level, because of many outliers such as Fayetteville hosting Walmart and Trieste hosting the Italian insurance giant Assicurazioni Generali.

68 cities in Africa and the Middle East that enter the $9 billion to $14 billion GDP tier by 2025, ten are expected to become new large company homes for the first time.

Exhibit A8

There are big regional differences in the share of cities with similar GDP that actually house a large company

Example: Cities that, on average, host one large company given their GDP



1 An average city with a GDP between $9 billion and $14 billion in 2010 hosts one large company. Same GDP tier assumed in 2025 (GDP measured in 2010 dollars at projected real exchange rate).
2 Share of cities housing large companies in GDP tier increases with GDP per capita. By 2025, GDP per capita is expected to increase by $6,000 in Western Europe, $7,000 in the Middle East, and $1,000 in Africa.

SOURCE: McKinsey Large Companies Database; McKinsey Global Institute analysis

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